

# TALK IS CHEAP

## Turning Local Economic Development Strategies into Reality in Transition Countries

Bosnia and Herzegovina,  
Macedonia, and Moldova

Edited by

**GWEN SWINBURN**

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and Public Service  
Reform Initiative

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## LGI POLICY FELLOWSHIP PROGRAM

LGI's fellowship program supports practical policy reform in the region, builds the capacities of talented individuals who are well placed to influence policy, creates networks of multinational experts, and supports the mission of LGI. Each year LGI selects talented professionals from Central, East, and Southeast Europe and the former Soviet Union to participate in the one-year program. Fellows work in small teams under the guidance of a well-respected mentor to produce policy-oriented studies on a given topic. The completed studies are impact oriented; each contains an advocacy or implementation strategy and concrete policy recommendations. LGI provides its fellows with training on how to write effective, concise, fact-based, practical policy reports. Other training modules LGI offers its fellows are public speaking, presentation skills, and advocacy methods. At the conclusion of the program LGI works with its fellows to determine what steps it can take to support the proposed recommendations in the completed studies. Fellows are generally policy researchers, policy advisors, civil servants and members of NGOs, advocacy groups, or professional associations.

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# Foreword

Having been intimately involved in the management of LED programs focusing on strategy development in the Balkan region, I initially greeted the invitation to present a paper on the *design and implementation of local economic development (LED) strategies in Eastern Europe* with enthusiasm. The invitation came from the Organisation for Economic Cooperation and Development (OECD) and the audience consisted of development experts. I was happy to relay my impressions and experiences in working with city officials, local entrepreneurs, and civic leaders to a broader audience. There was just one problem—the word *implementation*.

The OECD was asking a very good question: how were local economic development strategies being designed *and what results had been achieved*? As I had been exclusively involved with the front end of that question—strategy development—I turned to other experts in the field and scanned the internet to see what analysis had been done on the actual effects the LED process was having on municipalities that had chosen the strategic planning approach. Was there in fact a causal relationship between the two? If so, what lessons—both positive and negative—could be learned? These questions, however, were largely unanswerable at the time, owing mainly to the fact that the whole LED concept was still a rather new one in Eastern Europe. To be sure, scores of studies existed on the subject, but they were principally focused on legal frameworks, municipal mandates and competencies, and the *planning* process. Despite the vast resources that donors had invested in supporting LED efforts in the region, surprisingly little research or analysis had ever been done on the post-planning, implementation period and what had or had not been achieved.

With the clock ticking before the Trento conference, my co-author, Fergus Murphy, and I did what we could and drafted a paper focused almost exclusively on the planning process, along with some anecdotal, or less than quantitative, implementation results as we perceived them. We were not alone in taking that approach at the conference—everyone else did the same.

Upon returning to Budapest I was in the fortunate position of being able to bring together resources and people to begin mapping this under-charted terrain. As manager of LGI's research and policy fellowship program, I pieced together a basic structure to investigate the implementation phase of LED, hired one of the leading figures in the field—Gwen Swinburn of the World Bank—to mentor the process, and launched a call for researchers. Soon we had a team of experts from Armenia, Bosnia and Herzegovina,



Bulgaria, Macedonia, Moldova, and Russia investigating, in their respective countries, such implementation factors as municipal leadership, approaches to project finance, maximization of local resources, attraction of external funds, public-private partnerships, and technical expertise. Researchers also investigated factors that affected the success or failure of specific projects within the strategies.

The results of three of the above-mentioned studies—from Bosnia and Herzegovina, Macedonia, and Moldova—are presented in this volume together with a valuable cross-country synthesis. It is the hope of all the contributors that municipal leaders, international donors, and local NGOs engaged in economic development might benefit from the insights shared in this book. The findings have already been used by LGI to improve its LED programs.

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February 2007

# List of Contributors

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**ZDRAVKO MIOVČIĆ** is Director of the Enterprise Development Agency in Banja Luka, Bosnia and Herzegovina. He has considerable experience as a consultant for local development, entrepreneurship, management, and good governance projects. He participated in close to 40 projects in Bosnia and Serbia in different roles (as project manager, team leader, lead expert, or senior expert) and helped create more than ten LED strategies as lead consultant. He is the author of three books: *How To Plan Local Development* (2005), *How To Achieve Good Governance* (2004), and *Quick Decision Making* (1990), and several research papers and case studies. He was the editor-in-chief of five publications related to local government and business development challenges in Bosnia and Herzegovina. He holds an M.A. in social sciences.

**MARIA SALABUGA** serves as Policy Adviser to the Ministry of Local Public Administration of the Republic of Moldova. Under the auspices of the United Nations Development Program (UNDP), she provides policy support in developing, implementing, monitoring, and evaluating strategies, policies, programs, and other policy documents. She focuses on participatory and broad-based multi-stakeholder consultation processes in local governance and development and/or other closely related areas. Her prior experience includes a senior managerial position in a donor-funded program providing a wide range of democracy and governance, financial management, municipal infrastructure, and local economic development activities at the community level throughout Moldova. The program was aimed at increasing the autonomy, efficiency, responsiveness, accountability, and transparency of more than 120 local governments in communities of varying size.

Salabuga graduated with highest honors from the Academy of Public Administration, the preeminent public administration education institution in Moldova. She is currently pursuing a doctorate degree at the Moldova Academy of Economics.

**GLIGOR STOJKOV** holds an M.B.A. in international management and finance and is presently employed at Divus Consulting and Investment in Skopje, Macedonia. His professional experience includes diverse operational and management positions in both the private and the public sector (UNDP, World Bank, GTZ, EAR, etc.). Stojkov is involved in diverse activities related to economic development (both local and regional) with special emphasis on SME support issues, where he is able to apply his private sector experience to development planning and implementation processes.

**GWEN SWINBURN**'s local economic development career has spanned more than 30 years. Before working at the World Bank, Gwen was an LED practitioner based in urban and rural local governments in the north of England. She broadened the scope of her activities when she started working for the urban group of the World Bank in 2000. She went on to lead the World Bank effort on LED where she had a global brief and led an internal and external community of practice. She developed what has become known as the World Bank LED methodology and related support materials which have been used by many donors, bilaterals, and governments in regions, towns, and cities across the world. Since leaving the World Bank in 2006, Gwen has acted as an external LED adviser to a number of donors, bilaterals, NGOs, and partnerships where her work continues to focus on sharing LED knowledge and building local capacity.

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# Talk is Cheap: Getting Past Local Economic Development Strategic Planning<sup>1</sup>

*Perspectives from Transition Economies*

Gwen Swinburn

## INTRODUCTION

After only five or six years of experimentation in local economic development strategic planning in the transition economies of South Eastern Europe, practitioners, governments, and donors are all keen to understand how these strategies are being implemented. We need to know how they are performing, and we need to understand their problems and successes. What can we learn from these early experiments that is applicable to current and future programs? What advice can we give to donors, governments, and local governments to improve the frame conditions and design of these strategies to enable better implementation? This book will start to answer some of these questions.

The book is a compilation of three studies undertaken by LGI fellows in Bosnia and Herzegovina, Macedonia, and Moldova. It is one of the first studies to address the challenges in implementing local economic development strategies. While more has been written about strategic planning for local economic development, almost nothing has been said about how these strategies have been implemented—even less on how they have been evaluated.<sup>2</sup> It must be emphasized that these are not academic studies but action research and investigative studies undertaken by experienced LED practitioners. The purpose was to develop specific and pragmatic recommendations to improve the chances for effective implementation of LED strategies.

I am lucky enough to have served as the mentor for these dedicated practitioners. My work leading the local economic development community of practice in the World Bank, where I had robustly promoted the use of strategic LED planning, also made me curious about exactly how these strategies were being implemented and what we could learn from these early experiments. I was even more interested when I saw that one of the fellows had selected a project I had advised upon some years earlier!

Having worked in many parts of the world with donors, bilaterals, national, and local government partnerships as well as their advisers over many years, I can safely say that the experiences recorded here and the lessons learned are applicable universally. I would be surprised indeed if the results and recommendations in this book do not resonate with practitioners from all corners of the globe.

This book is divided into four chapters. In this chapter I will introduce local economic development strategic planning and explain how it fits into the economic development paradigm. I will follow this with a short discussion of the development of LED in transition economies and donor engagement in Southeast Europe. I will then draw together some of the key issues and recommendations from the three case studies—Bosnia and Herzegovina, Macedonia, and Moldova.

The country case studies comprise the following three chapters. Every case addresses the national frame conditions for LED and each discusses the methodologies used. The fellows developed a common research framework that they then adapted in their countries. The research methods included secondary data analysis (reports and statistics) as well as primary data generation (surveys on strategies). All the fellows also spent considerable effort in interviewing key players in the cities that they examined. They reviewed not only the strategies but also examined and drew conclusions from specific projects that had succeeded as well as failed. The willingness and openness to share information of the staff and elected officials in the case study cities is gratefully acknowledged here.

The common methodology used by the fellows enabled both domestic and international comparisons to be made, adding universality and specificity to the conclusions drawn. Following the presentation of the cases the fellows each propose specific recommendations for action to remedy the issues they discover; these are directed at donors and at both national and local governments. It will not be surprising to practitioners to see that many recommendations are similar in all our cases—again I would expect them to be equally applicable globally.

## PUTTING THE “LOCAL” INTO THE ECONOMIC DEVELOPMENT PARADIGM

Generally, when one thinks about economic development and how to improve it, first thoughts go to big picture macroeconomic framework conditions, exchange rates, interest rates, balance of payments, fiscal discipline, political stability, and so on. Macroeconomic stability and a favorable national business-enabling environment are both necessary preconditions for successful and sustainable national and local economic development, but they are not sufficient.

While donors often focus on macro conditions at national level, every country is made up of multiple local and regional economies each different in its own way, each needing to be nurtured with a unique set of interventions. Even so, most government and donor-driven economic development programs are still spatially indifferent—the EU being a key exception. Compared with macroeconomic thinking, how sub-national economies develop has attracted much less (but growing) attention, despite the fact that economic development happens, or does not happen, in places within countries. Economic development is most definitely not spatially indifferent and this is increasingly recognized and acted upon by donors and governments. From this recognition a new discipline of local and regional development has emerged, first in old Europe and other high income countries, then in transition economies, and finally in developing countries too.

For readers new to local economic development, we see in each of our cases the author's chosen definition of LED. All the definitions have common threads. So that this chapter may be read in context, here is a definition that includes these common threads:

The purpose of local economic development (LED) is to build up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which public, business, and nongovernmental sector partners work collectively to create better conditions for economic growth and employment generation (Swinburn and Yatta 2006).

In western countries in the 1960s, '70s, and '80s, LED tended to be a very *ad hoc* process, normally project-led and crisis-driven (for example, when a steel plant or coal mine closed). Communities literally grabbed at whatever they could to try and improve their local economies, often without too much thought or planning. This was called the “first wave.” But as time moved on, experience showed that just as national economies needed facilitating and planning to optimize growth, so too did regional and local economies. The profession developed and became more complex as it went through the “second” and now “third wave.” The breadth and depth of LED program options as well as the collaborative way in which the programs needed to be calibrated meant that practitioners needed to develop a much more strategic approach to local economic development. Table 1 summarizes both the focus and tactics exploited in most LED strategies and gives a sense of the organization of the process—how strategic the process was and how the strategies were implemented and funded.

The table shows clearly that LED strategic planning involves a significant effort—the strategies themselves normally include a wide range of hard and soft infrastructure projects. For the economies in transition this involved multiple challenges, but we will focus on implementation challenges here.



Before discussing the transition economies specifically it should be understood that in many countries in the West, as well as transition economies, local economic development has become a core, if not primary function of local and regional governments. In some countries LED is a statutory function, clearly defined within legal frameworks. In others the legal framework is less structured, but the local governments undertake LED within broader statutory and non-statutory powers. The legal framework within which LED is undertaken in our three countries was a significant issue and is discussed within each case.

*Table 1.*  
The Three Waves of Local Economic Development:  
A Comparison of Strategies and Methods Used over Time<sup>3</sup>

FOCUS	TACTICS
<b>1960s to early 1980s: First Wave</b>	
<b>Key strategies:</b> <ul style="list-style-type: none"> <li>• manufacturing investment attraction from outside local area<sup>4</sup></li> <li>• attraction of foreign direct investment</li> <li>• making hard infrastructure investments</li> </ul> <b>Organization:</b> public sector only, few partners <b>Strategy:</b> project-led, not strategy-led <b>Implementation:</b> almost universally public sector, very little monitoring and evaluation <b>Funding:</b> almost all public sector	<ul style="list-style-type: none"> <li>• large grants, tax breaks, subsidized loans for (big) manufacturing firms</li> <li>• subsidized hard infrastructure investment</li> <li>• industrial site servicing</li> <li>• promotion of cheap labor, cheap land, cheap everything</li> <li>• foreign direct investment marketing strategies</li> </ul>
<b>1980s to mid-1990s: Second Wave</b>	
<b>Key Strategies:</b> <ul style="list-style-type: none"> <li>• retention and growing of existing local businesses</li> <li>• continued emphasis on inward investment attraction but usually more targeted at specific sectors or areas</li> <li>• beginning to focus on area regeneration programs</li> </ul> <b>Organization:</b> public sector driven, increasing consultation <b>Strategy:</b> first steps in strategy development, but still mainly project-led. <b>Implementation:</b> mainly public sector, some contracting <b>Funding:</b> mainly public sector with some private sector	<ul style="list-style-type: none"> <li>• direct payments to individual large and small local businesses</li> <li>• more targeted investment attraction methods</li> <li>• business incubators/workspace provision</li> <li>• industrial site and premises provision</li> <li>• technical advice, and training for SMEs</li> <li>• vocational skills training, especially for the disadvantaged</li> <li>• business start-up support</li> <li>• specialist business support (e.g., exports services, marketing, etc.)</li> <li>• hard and increased emphasis on soft infrastructure investment</li> </ul>

Late 1990s onwards: Third Wave	
<p><b>Key Strategies:</b></p> <ul style="list-style-type: none"> <li>• making whole business environments favorable</li> <li>• “soft” infrastructure investments (e.g., human resource development, regulatory rationalization)</li> <li>• public/private partnerships and leveraging private sector</li> <li>• improving quality of life and security</li> <li>• highly targeted inward investment attraction, building competitive not just comparative advantage</li> </ul> <p><b>Organization:</b> public sector-led partnerships</p> <p><b>Strategy:</b></p> <ul style="list-style-type: none"> <li>• holistic, building competitive advantage</li> <li>• more sophisticated, transparent competitive project selection and prioritization processes</li> <li>• almost universally strategy-led, except donor and government sectoral programs</li> </ul> <p><b>Implementation:</b> much broader implementation done by, public, private, community sectors, agencies; contracting and performance measures; considerable effort to monitor and evaluate</p> <p><b>Funding:</b> still public sector, increasing private sector and community funding</p>	<ul style="list-style-type: none"> <li>• integrated local and regional development strategies</li> <li>• focus on territorial not sectoral development</li> <li>• horizontal local government collaboration</li> <li>• community/municipality networking/ collaboration</li> <li>• knowledge gap and IT service support for businesses</li> <li>• demand-led workforce development programs</li> <li>• strategic planning, benchmarking, SWOT</li> <li>• much emphasis on understanding and measuring the local economy before strategic planning</li> <li>• more targeting in all program areas (human development, business development, infrastructure, and area development)</li> <li>• facilitative business red-tape reduction programs</li> <li>• grants, loans, venture capital to businesses with potential</li> <li>• business support comprehensive and capacity building tied to grants and loan provision</li> <li>• quality of life investment programs</li> <li>• targeted skills enhancement for the disadvantaged</li> <li>• provision of tailored business development services</li> <li>• targeted support for businesses with potential</li> <li>• highly targeted area regeneration programs</li> <li>• facilitation of economically linked business clusters</li> </ul>

## FROM COMMAND AND CONTROL TO STRATEGIC LED PLANNING

These emerging economic development paradigms were transmitted to the economies in transition in response to multiple demand- and supply-side incentives, including massive economic shocks as well as the manifold opportunities afforded by the European Union and globalization became clearer. In the mid-1990s Poland became one of the first transition countries to experiment with these new tools and methods. Over the following decade growing numbers of towns, cities, and regions across South Eastern Europe began to build local economic development competencies, with cities and then regions developing local economic development strategies for the very first time.

While the transition economies were quite experienced in master planning, as well as sector-based and state-led “top down” planning, the new form of planning was strategic, integrated, and “bottom up.” Strategic planning for LED then is quite a different paradigm, undertaken sub-nationally, transparently, and in partnership with public, private, and community actors. This new paradigm meant strategic planning would be undertaken at the local government level for the first time. So while new local governments were becoming established, with all the challenges that involved, they also needed to address the challenges of strategic planning for local economic development. This meant fundamental changes in the way local governments did business, in the way they thought, in the way they governed and interacted with businesses and people, as well as in what they did and how they did it.

So undertaking LED strategic planning alone was a massive change and a difficult challenge in the transition countries. Donors, governments, and local governments understandably focused a great deal of attention on developing these strategies and new governance systems. Strategies identified hard and soft infrastructure projects all linked and needing coordinating within a strategic framework. As hard as it was, the case studies will show that designing and writing the strategy was the easiest part; the devil was in implementing such an array of projects, many of which were brand new project areas for the local government teams and their partners.

The role of donors cannot be understated in the transmission of LED know-how to transition economies. In fact, almost all major donors have been engaged in local and regional development in the region over the last decade. The potential for accession to the EU has been a major incentive for donors and clients alike to engage in LED. However, as will be discussed shortly and as will be seen clearly in the case studies, this well-intentioned donor engagement has been a mixed blessing on many levels. The papers will also illuminate the difficulty donors have in supporting such complex sub-national programs.

It seems that none of the donors have yet mainstreamed support for local economic development. There are many reasons for this, including the cross-sectoral and bottom-up requirements, along with other issues to be discussed in the papers. The key issue at this point is that while LED strategies are designed for the medium and long term, both donor and political agendas, unfortunately, are much shorter. This makes it challenging for dedicated donor field staff to convince headquarters of the efficacy of supporting such programs beyond the initial planning period, i.e., into implementation. Hopefully the results from this paper will enable donors to engage more fully and for longer timeframes. All three case studies reveal frustration with donor programs that are increasingly focused on two- or three-year interventions and heavily focused on soft infrastructure—more on this later.

Just as donors have frameworks in which they work, central and local governments have all sorts of incentives—some perverse, some completely rational—that create

resistance to both strategic planning for local economic development and implementation of those strategies. Our case studies reflect some of these issues, and the broader literature on decentralization builds on these issues. Local and national electoral cycles are particularly challenging for LED strategic planning, as politicians often have only a couple of years to produce results on the ground. The need for “quick-win” projects is now broadly recognized as necessary to underpin the strategic planning process and this is also identified in the cases here today. More recent donor-funded LED programs are responding to this identified need, including the most recent LGI LED program in Mongolia. The LED programs that have sought to include a range of donors from the outset also benefit from funding quick-win projects; these include projects supported by the Swiss Agency for Development and Cooperation in Kosovo and the World Bank in Albania. The strategic plans in both these countries were funded by LGI.

## FROM LED STRATEGIC PLANNING TO IMPLEMENTATION

Before commenting on the implementation of LED strategies in our case studies, I wanted to pause for a moment to reflect on LED strategic planning in England from the mid-1980s to the mid-90s. I see many similarities to what is happening now in the transition economies. Decentralization was in process; LED was a new field of activity; local governments had few specific competencies, most with very little experience in LED; and there were no direct local government powers to address LED. Local governments also had no experience in either strategic planning or in working through partnerships. Early efforts were focused on accessing funding and developing long, unprioritized project wish-lists. Even when strategies had identified projects, implementation was patchy and in essence relied upon opportunistic funding. I say this not to belittle the early efforts of LED practitioners in England (after all I was one of them!) but rather to make sure that readers judge this book in the appropriate context and not too harshly. The local governments in transition countries have a great deal more to contend with than local government in England in the 1980s and ‘90s. The good news is that we have that early experience to draw on, to accelerate the process in transition and developing countries.

While we recognize the similarities between LED in the 1980s in high-income countries and in the transition economies today, we are still struggling to apply the lessons. The case studies will show that all the efforts that went into designing the strategies turned out to be at the expense of implementation. They will show that as helpful as it was to have donor support and advice for strategy design, what was really needed was a longer term commitment to project implementation as well. The remainder of this book will focus entirely on the implementation of LED strategies and what we can learn from the cases.

The fellows rightly focus on the problems and challenges facing the implementation of LED strategies in their countries; however, the great progress that has already been made—often in just four or five years—should not be underestimated. A careful review of the cases will identify many successes and great strides in governance as well as in soft and hard economic infrastructure provision; Kočani in Macedonia is one such example. I can see these successes clearly—something that may not be obvious to those working on and evaluating the LED efforts in our case study countries. We certainly need to speed up both the design and implementation stages—and this book is all about that—but let's not forget the achievements to date, even while knowing we can do better. This book will help donors, national and local governments, and practitioners to accelerate the process if even only some of these lessons are acted upon.

## GENERAL LESSONS LEARNED FOR ALL

All of our cases from Bosnia and Herzegovina, Macedonia, and Moldova attempted to find the most sophisticated and established LED strategies to review. No country offered an extensive set of established LED strategies but it was instructive to see how many, mainly urban areas, already had some form of LED strategy. For example, at time of writing, over 30 communities in Macedonia had developed LED strategies, although some were simply wish lists. In fact, in Moldova there were no specific LED strategies to review but rather economic components of broader local development strategies. To give a flavor of some of the common issues I have detailed them below, in no particular order.

### **Ten common issues contributing to less than ideal implementation:**

1. Lack of city-level socioeconomic data.
2. Lack of institutional assessments to understand the capacity to undertake LED.
3. Little, if any, reference to developing indicators, monitoring, and evaluation.
4. Limited LED offices, staff capacity, and poor staff retention in local government.
5. Political and donor priorities “trump” priorities identified in the strategies.
6. Absence or functional absence of the private sector and partnerships; LED teams too dominated by local and state governments and institutions.
7. Lack of funds to implement projects, incorrect assumptions, and miscalculations resulted in weak financial planning and inappropriate timeframes.
8. Lack of organizational capacity and horizontal coordination of projects in implementation.
9. Implementation of projects often the responsibility of state-controlled institutions over which local governments had little power or influence.
10. Lack of LED leadership.

I will not repeat the recommendations as applied to each country, but I will attempt to draw together overall conclusions and key recommendations for donors and governments. Each case study will go into more detail and explain the rationale and evidence base behind each of the recommendations.

### **Lessons for donors:**

1. Encourage locally written LED strategies through accepting less than the highest quality and through supporting specific components in lending and non-lending programs.
2. Undertake institutional assessment before starting any LED processes, understand institutional capacity so programs can be designed appropriately.
3. Fund local economic assessments including gathering of primary and secondary data; give training for staff to sustain this on an ongoing basis.
4. Fund capacity building and training at the outset of projects, especially on implementation methods, project management, monitoring, and evaluation.
5. Support investment priorities in LED strategies rather than pressing donor priorities on communities, forcing them to ignore their locally agreed priorities.
6. Expand the scope of work of external consultants to include support on implementing projects, not just during the strategic planning process.
7. Advise on establishing an enabling legislative framework for LED, for those countries without legislative frameworks for LED.
8. Donor Integration: try to integrate the efforts of donors so they mutually support LED strategy design and implementation.

### **Lessons for national governments:**

1. Continue decentralizing, including the transfer of capital assets, including land.
2. Develop enabling legislation for LED.
3. Attach new fiscal transfers with new functions, no more unfunded mandates.
4. Capacity building and training: take responsibility for ensuring that appropriate capacity building and training is in place for LED.

### **Lessons for local governments:**

1. Strong political leadership and processes are a defining factor in the successful design and implementation of LED strategies.
2. Transparency pays. Do what you can to open the process of strategy development and implementation to the public and private sector—all great assets.
3. LED Staff Retention and Continuous Learning. Try to develop strategies to retain LED staff—effective implementation is positively correlated to staff retention. Use every opportunity to develop local and institutional capacities through training, mentor programs, study tours, etc.

4. LED Management Unit. This should be based in the local government, but implementation can be undertaken by other private and NGO partners, especially as some local government staff are not familiar with project implementation.
5. Maintain the stakeholder relationships. The forum should be maintained past agreement of the strategy to oversee implementation and annual updates. Maintain effective relationships with central governments and donors.
6. Strategies are not cast in stone. They can and should be updated to take account of new opportunities and threats. Strategies should be integrated with other local and national strategies.
7. Start small. Build on local resources and capacity—small successful projects are better than expensive failed projects—prioritize.
8. Financial planning must be integrated into LED strategies. LED strategies should be planned according to power and capacity, not needs—prioritization is essential. Annual operational plans will help here. Look at PPPs.
9. Stick to the Plan! Try to have donors fund your priorities, not the other way around; a good strategy is a great start. Try not to be tempted by “free” offers from donors; these always come at a cost if not a locally agreed priority.

## CONCLUSION

The recommendations for donors, national governments, and local governments from each of these country case studies are very similar. When I look at these recommendations and consider the many places I have worked beyond this region, I see how well they apply across the globe. What is most interesting is that the lessons learned and advice given in these transition countries is likely to be very applicable also in both high income and developing countries.

This editor and these fellows firmly believe that these recommendations are not impossible to achieve and with good will they can be applied. As they are applied, we believe that locally owned, written, and implemented strategies will bring multiple direct and indirect benefits to communities across the globe. It is our hope that much more focus will be applied by donors, NGOs, and governments to ensure a knowledge framework that will support the growing LED family, and that projects such as these will enable the scattered knowledge and growing practice to be shared globally.

I thank Scott Abrams at LGI for supporting the LED effort, both through sponsoring experimental projects as well as research. Also thanks to Mr. George Soros who ultimately funded this work. It is clear to all of us, and confirmed in this study, that this region desperately needs the ongoing support of donors, both through technical assistance and investment support, to ensure that the LED agenda can be scaled up and improved. I hope this book will open doors and resources to support for the many

communities desperate to improve their lot through adopting good practices for economic development.

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## NOTES

- <sup>1</sup> We had trouble choosing a title for this book, trying to find something catchy that delivered the key message from its content. We finally decided on *Talk Is Cheap*, but we all know that talk, like everything else, has a cost, on multiple levels. If we had the space I would call this book: *Talk Is (Relatively) Cheap*.  
The editor and LGI wish to thank *Professor Andrés Rodríguez-Pose* of the London School of Economics for peer reviewing an earlier version of this manuscript and providing insightful comments to the authors. His contribution has invariably led to a much better final product that you now have in front of you.
- <sup>2</sup> For an introduction to this topic, see Abrams and Murphy (2005).
- <sup>3</sup> Adapted Swinburn and Yatta (2006). The original idea for the three waves comes from Edward J. Blakely.
- <sup>4</sup> All three waves are still practiced but the focus in the 21<sup>st</sup> century is on the third wave, moving away from support for individual firms towards broader business-enabling environment improvements, collaborative working, and skills and development.





# Developing Local Economic Development Infrastructure: Lessons (Not) Learned in Bosnia and Herzegovina<sup>1</sup>

*Zdravko Miovčić<sup>2</sup>*

## ABSTRACT

This case study provides a set of proactive solutions for the fundamental redesign of actual policies and practices supporting local economic development (LED) in Bosnia and Herzegovina (BH). The proposed solutions are based on lessons learned through comparative analysis of implementation of the first three serious strategic plans for LED in BH. Local control over resources, project management skills, and application of the concept of public-private partnership (PPP) are key factors in efficient and effective implementation of strategic plans and priority projects. Recommendations—targeted at decision-makers in relevant government levels in BH as well as key international donors supporting LED—include a substantially stronger focus on the implementation framework with selective transfer of powers related to management of local resources to cities, combined with a rapid improvement of local development management capacities and more intensive application of PPP.

## 1. INTRODUCTION

Through Local Economic Development (LED) local governments attempt to build up the economic capacity of a local area in order to improve its economic future and quality of life for all (Swinburn et al. 2004). Strategic LED planning is a key element in proactive local government. The modern methodology of strategic planning<sup>3</sup> was developed in detail, in order to be used by practitioners in the field. It is flexible, so it can be easily adjusted to numerous differences in local state of affairs. However, the problem is not in concept but in application (“the devil was in the details”).

In analyzing first experiences in the application of the modern concept of strategic planning in BH, it becomes apparent that the problem is less in the planning and more in the implementation. BH is in a critical period of fast growing local and regional development initiatives. In autumn of 2005 UNDP carried out a first assessment of the current situation with strategic planning and management at the local level in BH on a sample of 91 municipalities (64 percent of a total of 142 local government units in BH). Some of the main findings are outlined below (Pavelić 2006):

- Around 51 percent of BH municipalities have developed some type of strategic plan in the last 10 years.
- About half of these plans were developed during the last two years.
- About half were developed by international organizations.
- About one fourth were never adopted by the municipal assembly.
- Only 49 were followed up by an action plan.
- Only 24 percent of municipalities have developed a financial plan for implementation of the strategic plan.
- Only 46 percent of municipalities considered the goals defined by the plan to be realistic and attainable within the defined timeframe.
- Only 11 percent of municipalities stated that they had sufficient financial resources to support strategy implementation.
- About 56 percent of municipalities stated that they had sufficiently skillful and knowledgeable staff to manage and implement the plan.
- Only half of the municipalities assigned the task of implementation to a formal team.
- Accordingly, about half of the municipalities have never analyzed or discussed the progress of implementation.

From an evident concentration of new strategies in the last two years one can come to at least two conclusions:

- Local enthusiasm and readiness for facing development challenges is growing.<sup>4</sup>
- Strategic planning at the local level in BH is no longer a top news story.

Intensive participation by international actors (both donors and consultants, as donors mostly give this kind of work to international implementing agencies) practically ensures implementation of the modern concept of strategic planning and the introduction of some common LED tools (local development agencies, business incubators, industrial zones, etc.).

But what actually happens when the planning phase is finished and implementation is ready to begin? What do local governments and small development teams do when an international project within which technical help was provided (in the form of local

stakeholders' gathering and involvement, participative planning, creation of a strategy, and achieving a consensus) is finished? Do established public-private and nongovernmental sector partnerships sustain and expand? How quickly are the most urgent and important projects implemented and what results do they deliver? What contributing factors can be identified and what lessons can be learned from both successes and failures? Finally, is anyone interested in these issues other than those concerned with development problems in their own local area?

Domestic policies for supporting local development are just starting to be shaped in the new context of transition, globalization, and EU pre-accession status. They are still not on the agenda of state, entity, or cantonal authorities. Thus, actual legislation related to local development is far more incomplete, addressing compulsory local development planning without ensuring the instruments for its realization. International projects for support, backed by data from the quoted survey, show an intention to compensate for lack of coherent and effective national and local development policy. However, this kind of support is still limited to the planning phase, ignoring the real problems that local governments and development teams face when they attempt to realize those plans.

This paper is an attempt to enlighten the second, less positive, and often hidden side of the coin. It tries to attract the attention of policymakers supporting local development in BH to a widened planning horizon by emphasizing implementation. In the case of BH, local development policymakers are both domestic and international, with the former creating laws and other instruments, and the latter running various (often incompatible) donor projects with huge influence on the creation of practices for managing local and regional development in BH. This paper primarily targets policy advisers in entity and cantonal governments and ministries—in order to prepare and provide a better legal/administrative framework for implementation of LED strategic plans—and their colleagues, advisors to key donors—to promote a redesign of LED support programs for greater impact.

In brief, this paper intends to recommend a set of proactive solutions for the fundamental redesign of current policies and practices for support of local economic development in BH, based on lessons learned through a detailed analysis of the implementation of the first three serious strategic plans for local economic development.

The cases presented here (Brčko, Zenica, and Prijedor) are the first *second-tier cities*<sup>5</sup> in BH with modern strategic plans (focused on strategic issues to be solved, with clear priorities, and a detailed implementation plan), geographically located in different parts of the country.<sup>6</sup> Zenica is centrally located within central Bosnia; Prijedor is a sub-regional center located in northwest Bosnia, and the District of Brčko is a rapidly developing sub-regional center in northeast Bosnia, with outstanding functional and fiscal autonomy compared to other municipalities in BH. All have decent strategic plans that were adopted a few years ago. The Brčko Development Strategy is a special case due to full international technical and financial assistance (the EU is the main donor,

with Eurecna Veneto Srl from Italy the leading implementing agency). The Brčko Development Strategy was adopted by the District Council in April 2002. The other two cases (Prijedor and Zenica) are similar in economic background, with the same donor and technical assistance provided for strategy creation (SEED projects managed by the IFC). The entrepreneurship and SME development strategies of Zenica and Prijedor were completed in the summer of 2003 and adopted in September 2003 and January 2004, respectively.

There are some important differences between the cities: Brčko is a special district with a high level of autonomy and delegated powers; Zenica is the capital of a canton within the legal and administrative framework of one BH entity (Federation of BH), and Prijedor is a sub-regional center in the other entity (Republika Srpska). In spite of such differences, all have the formal status of a local government unit. In addition to that status, Brčko is a special district within Bosnia and Herzegovina, almost a third entity, with enormous functional and fiscal autonomy (compared to other municipalities) and exceptional international assistance, not only financial and technical, but administrative (there is a special High Representative with ultimate authority over the Brčko District).

Qualitative analysis<sup>7</sup> has been used as a primary tool, with the following data collection methods:

- Collection and review of documents linked to the strategic planning process as well as the plans produced (terms of references, local economy assessments, strategies, project proposals, planning and implementation reports, monitoring and evaluation reports, etc.).
- Semi-structured interviews with key local informants (team leaders or managers responsible for the creation of the strategic plans, key staff of local development agencies, and municipal departments of economy).

Field interviews with the local informants were carried out at the end of 2004 and beginning of 2005. Key findings related to functional and fiscal patterns within BH are fully relevant to the 2002–2004 period.

It was not possible to assess the real impact of the three chosen strategic plans mainly because insufficient time had elapsed since the date of adoption. The assessment was limited to current progress in achieving defined, planned, or foreseen goals. In regard to specific projects the assessment was focused on their implementation success. In order to assess the implementation success of specific projects, a basic If-Then Project Logic Model (see Annex 2) has been used, based on key concepts from the *Logic Model Development Guide* (W.K. Kellogg 2004). As an action-oriented tool for program planning and evaluation, the *Logic Model* links intended and achieved results (outputs-outcomes-impact) with work planned and work carried-out (assumptions-resources-activities).

The rest of this paper will provide different local contexts and competencies regarding LED in BH (Section 2.1), then differences and similarities relevant to our three cases, focusing on different implementation results in terms of strategic plans as well as specific projects, with identification of key success/failure factors (Section 2.2). In Section 3, lessons learned from the cases will be transformed into recommendations for the redesign of the policies regulating and supporting LED in BH in both short-term and long-term perspectives. More detailed insights into methodology and findings are provided in the annexes.

## 2. LED IN BOSNIA AND HERZEGOVINA —WHAT IS REALLY GOING ON?

Strategic planning of local economic development (LED) is a rather new practice in transition countries. Throughout most of the 20<sup>th</sup> century, local development plans were prepared at the central level. Nevertheless, as of the early 1990s the context of LED has been radically changed—central governments have considerably reduced their responsibility for local development (Puljiz 2004). In some countries, however, this has not been accompanied by decentralization<sup>8</sup>—meaning substantial transfer to the local level of responsibilities, authorities, and resources for local development. Even so, strategic planning has been introduced at the local level, primarily by international donor organizations (Abrams and Murphy 2005). Systematic definition of suitable policies derives from practice. By introducing new instruments, international donors foster creation of corresponding domestic policies. Both local units and their leaders have neither time nor patience to wait for substantial functional and fiscal decentralization, leading to the creation of first practices of strategic management of local development, some fruitful, some not. These pioneer efforts and the practices they create often reveal the complexity, and sometimes the paradoxes, of a transitional environment.

### 2.1 The First LED Cases—Different Local Contexts and Competencies

#### 2.1.1 Who Is Responsible for LED in BH? Some Paradoxes

BH is a complicated country caught between requests for urgent and rational centralization (to create a “normal” state able to fulfill its duties in the stabilization process) and the need to create substantial functional and fiscal decentralization. The complexity of the administrative structure is outlined in Table 1.

*Table 1.*  
Administrative Structure of BH<sup>9</sup>

Administrative levels	Jurisdiction				
	State	Federation	RS	Brčko <sup>10</sup>	Total
Central	1				1
Entity		1	1		2
Cantonal		10			10
Municipal		79	62	1	142
District				1	1
<b>Total</b>	<b>1</b>	<b>90</b>	<b>63</b>	<b>2</b>	<b>156</b>

A short description of the constitutional distribution of powers by levels of government in BH is as follows (Miović 2006):

- weak municipalities (too many responsibilities with neither adequate powers nor sources of funding)
- strong cantons in the Federation (too many powers and too few responsibilities)
- high level of responsibility and powers in Republika Srpska concentrated at the entity level
- a weakened central government (limited responsibilities and powers).

Key powers relevant to economic development are assigned to the middle level of government—in RS, almost all powers are at the entity level; in FBH, key competencies, powers, and resources are divided between federal and cantonal levels. The local level of government in both cases is substantially without adequate competencies, power, and resources to manage local development effectively (Miljević 2002; EDA 2005). The principal role of local government is normatively<sup>11</sup> reduced to the local communal self-management and the local government, despite the fact that citizens often grade support for economic development as the most important role of the local government (EDA 2000). This is worsened by the uneven territorial structure of local government colliding with the rigid, mono-structure of their competencies.<sup>12</sup>

The structure of competencies regarding development issues is not as confusing as it first appears; the confusion starts when this structure is compared with the current distribution of practices for strategic development planning—significantly different from self-generated administrative structure and competencies:

- There are no competencies for development planning at the central level, but there is a BH Development Strategy.<sup>13</sup> Responsibility for implementation of the strategy is shared between the central level and the entities.

- Competencies related to development management are concentrated at the level of entities (RS and FBH). The entities have produced their own particular strategies (an agriculture development strategy and SME development strategy).
- Regional development strategies<sup>14</sup> and regional development agencies have been established at the regional level (which was introduced without any administrative framework and without taking into account the country's administrative structure).
- Important development competencies have been defined at the cantonal level (in FBH), but few cantons have development strategies.
- There are almost no development competencies at the local (municipal) level, but nearly half of municipalities have prepared local development strategies.

### 2.1.2 Different Functional and Fiscal Patterns within BH

The essential questions in both LED and decentralization concern units of local government: *What competences and powers do local authorities exercise? What kind of resources do they have?* As already indicated, there is not a unique template for defining functional and fiscal competencies for LED at the local level. Actually, each of the three cases to be analyzed belong to different templates: Zenica is characteristic of FBH; Prijedor, the RS; while Brčko is a specific case, with the highest possible level of decentralization.<sup>15</sup>

A comparative review of distribution of functions and powers between levels of government in FBH (relevant to Zenica), RS (relevant to Prijedor), and Brčko (presented in Annex 3) illustrate how minor the competencies of municipalities in FBH (Zenica) and RS (Prijedor) are, and how minor the differences between them. On the other hand, it shows an extreme case of decentralization in Brčko District—completely different from other local units in BH—with powers that are very similar to the BH constitutional entities.

The fiscal environment patterns in BH follow a similar course. Recently, entities transferred a part of fiscal sovereignty to the state.<sup>16</sup> Taxes were divided between direct and indirect; entities abandoned direct organization of indirect taxes, while keeping administration of direct taxes. In that way fiscal forms in BH continue to be different. A comparison of the fiscal frameworks in BH (valid for 2004, with a short indication of changes in 2005 and 2006) is presented in Annex 4.

Comparing the entities, Brčko has the most favorable fiscal conditions for business start-ups. The tax on revenue and profit is lowest, while real estate tax does not exist. In the area of indirect taxes, after the introduction of a VAT system (in 2006) the burden is the same as in the rest of country (17 percent VAT, customs according to the BH customs tariff, and excises in line with common legislation). In comparison to other



local units in BH, Brčko was and still is in a far better position, due to the fact that it has nearly full control over all fiscal instruments.

In contrast to Brčko, municipalities in both entities (RS and FBH) have very weak fiscal positions and share similar problems, as described below:<sup>17</sup>

- They lack the ability to influence the size and quality of the tax base used for both shared taxes (income and sales tax) and local taxes such as property tax and property transfer tax.
- They are subject to an annually changing arbitrary sharing of revenues by cantons (in FBH) and by the RS.
- All taxes, even local taxes on property and transfers, are collected by entity-level revenue offices, and municipal management has no influence over tax rates, collections, or enforcement.
- Even property taxes are not genuine own-source revenues for municipalities; thus the connection between local services, property values, and the level of taxation or tax yields is completely severed.

As a result, local services and economic development in all municipalities in BH (except Brčko) are not funded by local taxes, as these by any definition are rare.

### **2.1.3 Different Competencies with Respect to LED Planning**

Finally, important differences are present in the field of competencies and resources regarding local development planning. Within the RS, local development planning is the basic competency of local government units, although this competency is not followed or supported by the resources necessary for its effective accomplishment. In FBH municipalities, a basic competency over local development planning has been taken over and transferred to the cantons (which could, again, return it to municipalities, but as a transferred competency, not an original competency), where the control over resources is important for local economic development. Only in Brčko is a high level of competencies for local development planning supported by a high level of control over appropriate resources.

These differences influence the implementation phase of LED strategic plans and single projects to a far greater extent than the planning phase. The comparative analysis of the planning process, strategic plans, and the implementation results of chosen projects presented in the coming pages will provide some arguments to support that claim.

## 2.2 What about Implementation Success?

### 2.2.1 Similar Planning Frameworks

A comparative review of planning frameworks is presented in Annex 5. There are more similarities than differences among the cases. There are almost no differences between Zenica and Prijedor, due to the fact that the planning was been led in the same way (as a SEED project advised by the WB) using the same consultants (two consulting companies from Slovenia and Croatia) and the same methodology (participatory planning with active involvement of public, private, and the nongovernmental sector, five-stage planning process, issue-driven approach, “vision to projects” matrix, etc.) with a focus on entrepreneurship and development of small- and medium-sized enterprises. In the case of Brčko, the planning process has been practically led by the EU Regional Development BD Project, with international consultants from Slovenia and Italy, using similar participative methodology but with wider coverage (general development strategy with a focus on economy). In all three cases, strong political support from local leadership has been present, as well as active participation of local stakeholders, who were trained for each step in the process of strategic planning (learning by doing). In all three cases consultants and local development teams had many problems in terms of unavailable reliable statistical data, replacing it with the well organized use of qualitative data. In no case were development objectives defined as SMART<sup>18</sup> objectives, so progress in their achievement is not measurable. The key differences are in the assessment of local institutional capacities for LED (assessment of local institutional capabilities regarding LED) and corresponding consequences. In that respect, the assessment of institutional capacities of Brčko was made at an early stage of the planning process. Consequently, the Brčko Development Agency was established early on, actively participating in the planning process. Afterwards, with no delay, the agency took over the technical aspect strategy implementation. No such assessment was made in Prijedor or Zenica. If it had been, the number of chosen projects would likely have been far lower.

### 2.2.2 Not So Similar Implementation Frameworks

A comparative review of implementation frameworks is presented in Annex 7. There are no significant differences in regard to prioritizing and selecting projects, as well as inclusion of “early-win” projects. Differences are related to an overall LED strategy implementation plan: such plans (using a standard short-form containing a list of projects with costs and potential sources of funding, timeframes, and responsibilities for each project) are defined in Zenica and Prijedor strategies but not

defined at all in BD strategy. Individual project action plans for priority projects were, however, developed in all three cases, but with some differences: standard project forms were prepared almost completely by consultants in Brčko and Prijedor, while in Zenica very detailed project documents (almost pre-feasibility studies) were prepared mostly by local specialists. All three cases suffered from a lack of monitoring and evaluation systems.

As was the case in the planning framework, an assessment of local institutional capabilities to implement LED strategy and specific projects was carried out in Brčko (in the stage of project form preparation), but not in Zenica or Prijedor. Local implementation capacity building was undertaken in two cases: in Brčko as proactive capacity building of the BD Development Agency during the planning process and in Zenica during the last two months during which the project teams began implementation of priority projects.

In all three cases specific strategic implementation units were established to facilitate strategy implementation, but with different approaches:

- The BD Development Agency (BDDA), already created during the planning process as the first local development agency in BH (*established by a mayor's decision in April 2001*), was well prepared for implementation. Key staff had actively participated in strategy development. The main role of the agency was oriented to implementation of business support projects. At the moment when the strategy was adopted, the agency was one of the best equipped training and business support centers in BH, with a respectable team of ten well-trained young specialists, as well as with proper internal (from the BD budget) and external funding (mainly from funds provided by the European Commission Delegation).
- The Zenica Development Agency (ZEDA), created as one of the first projects, was actually established (*as a limited liability company, with Zenica municipality as its founder*) and equipped one year after adoption of the strategy, with three main sets of tasks: (i) preparation and implementation of the projects<sup>19</sup> defined by the Strategy, (ii) provision of the business services to SMEs, and (iii) management of new entrepreneurship infrastructure (incubator, business zone). It took almost one additional year to build the capacities of ZEDA staff to be ready to carry out its tasks. A combination of finances was applied: operational costs are covered by the municipal budget and additional income is provided from donor-financed projects.
- The Prijedor Development Agency (PREDA), also created as one of the first projects, was established at the same time the strategy was adopted (*with Prijedor municipality as founder, first as a limited liability company, later as a part of the municipal administration structure*) and equipped during the first year of implementation. PREDA is responsible for implementation of almost

all projects and reporting to the Municipal Assembly. It took one additional year to build necessary capacities to deal with strategy implementation issues and selected LED tools. As in the case of ZEDA, operational costs are covered by municipal budget and additional income is provided from donor-financed projects.

After adoption of the strategies (early 2002 in BD, the summer of 2003 in Zenica, and early 2004 in Prijedor) sufficient initial funds for implementation of priority projects were provided from local budgets as well as some additional funds from external sources (mainly from donors, in Zenica also from federal and cantonal budgets). But there was an essential difference related to availability and control of other resources necessary to implement some priority projects (land, buildings, infrastructure): all resources were completely controlled at the local level in BD, necessary resources were partially controlled by municipal government in Zenica, and not controlled at all by the municipal government in Prijedor.<sup>20</sup>

Mayors are ultimately responsible (in all three cases) for implementation, with technical support from the department of economy and development agencies. There is almost no involvement by the BD Parliament in monitoring and evaluation. The municipal assemblies of Zenica and Prijedor discuss implementation of the strategies based on old-fashioned bureaucratic reports without proper indicators. It is surprising that in all three cases involvement of other local stakeholders ended with strategy adoption, in spite of the fact that they had contributed substantially to the plans' creation. More surprising, intensification and expansion of activities by the Stakeholders Forum was defined as a priority in each strategy.

In all three cases external technical assistance was limited to the planning stage, without any responsibility or consideration related to implementation.

### 2.2.3 Different Implementation Results

As described in a recent study (Swianiewicz 2004), it is not difficult to prepare a strategy, "the real challenge is to implement it." Another study emphasizes that "a strategic plan is of little use if the municipality or region does not have the capacity to implement it" (Čapkova 2005b). Using our field evidence, we seek to expand the base of comparable observations initiated by those studies, but with some unavoidable limitations.

It was not possible to assess the real impact of our three strategic plans, because of the three reasons listed below (in order of importance):

- Not enough time had elapsed since the plans had been adoption.
- Deficiencies in plan design: lack of effectiveness indicators and overly general definitions of development objectives (not defined in SMART terms).

- There were practical problems related to the lack of reliable statistics in BH and lack of any integrated data related to local economic indicators in all municipalities (Miovčić 2005).

In order to get a rough ideas of progress in achieving strategic goals, we have compared findings from the review of project implementation status (Annex 7) with a list of projects for each strategic goal from the “Vision-to-Project Matrix” (Annex 8). The logic was simple: if relevant projects are implemented successfully, then certain expected levels of a strategic goal are likely to be achieved. Current progress in Zenica is outlined in Table 2. Current progress in Prijedor is outlined in Table 3. Brčko’s strategic plan is entering its last implementation year. More evidence of successful implementation and achievement of the goals is outlined in Table 4.

*Table 2.*  
Progress of Zenica LED Strategy

Strategic Goals	Progress Assessment	Evidence
I. Developed system of institutional support	Lack of any visible progress	There is some evidence of implementation for only one project (out of eight).
II. Developed and strengthened physical development infrastructure	Progress is late and substantially less than expected	Most of the resources and efforts have been committed to this goal—all four priority projects are oriented toward this goal. There is some evidence of implementation of six (out of eight) projects. All but one are late or very late, with achieved results substantially less than expected.
III. Strengthening the SME sector	Minimal, slow progress	There is some evidence with respect to implementation of four projects (out of seven). In two projects, implementation responsibility was transferred to a newly established regional development agency.
IV. Create production jobs together with diversified activities	Partial progress	There is some evidence related to implementation of four projects (out of nine). There has been success in youth training/employment initiatives and rural development support.
V. Human resources development for economic growth and restructuring	Partial progress	Available evidence of successful implementation of one project (out of four). Success was noted in start-ups and student entrepreneurship training.

*Table 3.*  
Progress of Prijedor LED Strategy

Strategic Goals	Progress Assessment	Evidence
I. Creating a business-friendly environment	Lack of any visible progress	There is some evidence of implementation for only one project (out of nine).
II. Creation of physical (hard) and business (soft) infrastructure	Progress is substantially later and more minimal than expected	Most of the resources and effort have been committed to this goal—four of five priority projects are here. There is some evidence of implementation of four (out of six) projects. Two projects are implemented on time and two are very late (still waiting for significant implementation).
III. Strengthening the SME sector	Limited but expanding progress	There is some evidence of implementation in four projects (out of six). PREDA is becoming more active in this area.
IV. Creation of productive jobs with a variety of activities	Lack of almost any visible progress	There is evidence of implementation for only one project (out of eight).
V. Human resource development for economic growth and restructuring	Partial progress	Available evidence of successful implementation of one project (out of three). Success in start-ups and students entrepreneurship training.

*Table 4.*  
Progress of Brčko District Development Strategy

Strategic Goals <sup>21</sup>	Progress Assessment	Evidence
I. Flexible economic structure	Very good progress	There is available evidence of successful implementation of eleven projects (out of sixteen). One more is now starting after substantial delays.
II. Developed human resources and labor market	Fair to good progress	There is some evidence of implementation of all seven projects, but much better results were achieved in the areas of IT and new technologies training and introduction than in education and labor market reform.

In the first two cases almost all resources and activities were concentrated on implementation of the projects developing physical infrastructure for entrepreneurship or SME development and building institutional capacity to deal with LED. In spite of an

excess of projects<sup>22</sup> and their wide dispersal through the five strategic goals, insufficient local resources and project management capacity were concentrated on a relatively narrow area of only one goal, due to its priority and the expectations<sup>23</sup> of visible results. This intention was obvious already during prioritization (all four priority projects in Zenica and four out of five in Prijedor). Reasons for late and low deliveries of the priority projects will be discussed later on in the paper.

During interviews with key local informants we gained an impression that interest and enthusiasm invested in other areas of the plan were far lower—a lack of local ownership of those goals and their respective projects—which should relate to the fact that in both Zenica and Prijedor strategies were written mostly by consultants. Both cases confirm the advantages of having an imperfect but locally produced and owned strategy instead of a perfect strategy produced externally (Abrams and Murphy 2005). Some sporadic successes in other areas are more likely consequences of a few external, donor-driven initiatives (SDC, USAID) rather than results of internal, systematic, and organized efforts to implement projects from the local strategic plan.

There is little convincing correspondence with most of the critical lessons learned in central, east, and southeastern Europe over the past decade (Abrams and Murphy 2005), which are listed in Table 5.

Two important weaknesses identified in this table are common to all our cases: (i) lack of a monitoring and evaluation system and (ii) absence of annual revision. What is really common to all three cases is inertia based on the highly bureaucratic practices<sup>24</sup> characteristic of an administrative service delivery approach. A shift to a more project-based approach is needed. Increased capacity is critical in allowing local governments to respond to this change of emphasis. “Capacity, in terms of the skills required to deliver projects, is often inadequate, as is senior management capacity to plan, steer, and lead across a large portfolio of projects” (PriceWaterhouseCoopers 2004). Current experiences in Brčko, Prijedor, and Zenica demonstrate a very limited scope of solutions based on the creation of local economic development agencies focused primarily on implementation of a greater number of projects without proper ability to monitor, evaluate, and revise the strategies.

The greater success rate for implementation of the Brčko strategy is not only due to the greater length of time elapsed since its adoption. The differences levels of success in implementation success are likely linked to the different functional and fiscal patterns described above. Both Zenica and Prijedor have little power to be proactive with respect to LED. Brčko is an extreme case of decentralization, with all powers in the hands of local authorities. Fiscal patterns are similar: Zenica and Prijedor have no control over any powerful fiscal instrument to manage LED, while Brčko has full control. The fact that an extremely decentralized functional and fiscal framework in Brčko has demonstrated very positive and swift effects in LED becomes a convincing argument for an essential and accelerated decentralization in BH.

*Table 5.*  
Comparison of Lessons Learned in the CE and SEE Region and Findings from BH Cases

Lessons learned in CE and SEE region	Findings in BH		
	Brčko	Prijedor	Zenica
Unclear action plans and/or weak monitoring systems reduce strategy impacts.	There is no any overall implementation plan. Individual project action plans developed for priority projects are prepared as standard project fiches, mostly by external consultants. There is no system for monitoring and evaluation.	There is an overall strategy implementation plan with individual project action plans developed for priority projects, which are prepared as standard project fiches, mostly by external consultants. There is no system for monitoring and evaluation.	There is an overall strategy implementation plan with very detailed individual project action plans for priority projects, which are prepared mostly by local teams. There is no system for monitoring and evaluation.
Too great a focus on external (i.e., state and donor) funds is common. Links between strategy and the municipal budgeting process tend to be weak.	Sufficient initial funds for implementation of priority projects were provided from local budget as well as some additional funds from donors.	Sufficient initial funds for implementation of priority projects were provided from the local budget as well as some additional funds from donors.	Sufficient initial funds for implementation of priority projects were provided from the local budget, with some additional funds from donors and from federal and cantonal budgets.
Local strategies should be integrated into their respective regional or national economic strategies.	Brčko's strategy was created before the respective regional strategy. <sup>25</sup>	Prijedor's strategy was created before the respective regional strategy. <sup>26</sup>	Zenica's strategy was created before the respective regional strategy. <sup>27</sup>
For sustained success, strategies must be reviewed annually to adjust to changing environments.	No evidence of annual revision.	No evidence of annual revision.	No evidence of annual revision.
The mayor's role is crucial in directing the effort.	The mayor's role was important, but not crucial.	The mayor's role was important, but not crucial.	The mayor's role was important, but not crucial.



Also, a few new lessons could be learned from the differences already identified (as well as common weaknesses) regarding the planning and implementation frameworks analyzed above. These lessons can be formulated as follows:

### **Lesson 1**

It is highly important to assess local institutional capabilities for LED planning and implementation as early as possible.<sup>28</sup>

*Arguments:* The assessment of institutional capacities in Brčko was made at an early stage of the planning process. Consequently, the Brčko District Development Agency was established immediately, actively participating in the planning process, and subsequently, with no delay, taking on a technical role in strategy implementation. Neither in Prijedor nor in Zenica was such an assessment made. Consequently, project lists were too long (without acknowledgment of the insufficient local capacity), and local development agencies were not created and enabled to take over a technical aspect of the strategy implementation in a timely manner.

### **Lesson 2**

Local control over the resources necessary to implement priority projects is of the utmost importance to overall success of the strategy.<sup>29</sup>

*Arguments:* All resources (land, buildings, infrastructure) necessary to implement priority projects were completely controlled at the local level in BD. The necessary resources were partially controlled by municipal government in Zenica, and not controlled at all by the municipal government of Prijedor.

### **Lesson 3**

Management of implementation (including monitoring and evaluation [M&E] and annual revision) requires a special capacity within a local government structure, besides a Local Economic Development Agency (LEDA).

*Arguments:* Current experiences with LEDAs almost completely dedicated to implementation of the majority of the projects demonstrate a clear lack of both responsibility and capacity to take care of overall strategy implementation. Activities related to M&E or revision are still not on the agenda in any of the communities studied.

These lessons, along with a few more, will be clarified in the next few pages through an analysis of implementation of specific projects.

### 2.2.3 Different Levels of Success for Similar Projects

Six specific projects, two per case, were selected for an in-depth analysis of the implementation success and key local factors influencing success or failure. All selected projects are from the area of development—lacking physical infrastructure for entrepreneurship and SME development, because most local efforts and activities were concentrated on implementation of such projects. In order to ease comparison, we have formed two groups of similar project types: business incubators and business zones. Success rates were various. The definition of successful implementation used in this paper is limited to a comparison of what a project intended to achieve, and how was it achieved, in terms of both time and outputs. The evaluation is focused on whether these outputs were achieved or not, and if not, why. We have used a basic If-Then Project Logic Model (see Annex 2) based on key concepts from the *Logic Model Development Guide* (W.K. Kellogg 2004).

Key finding are presented below (see Table 6). They are extracted from a broader elaboration presented in Annex 9. The implementation status assessment is based on detailed review of available documentation on site and interviews with key local informants, as well as on the assessment of potential success and failure factors. From a broader list of potential factors assessed (see Annex 10), only three factors (human resources, other key resources, and principal developer) are presented below. This is because of differences in their importance with respect to projects selected. This does not mean that other factors (M&E system, political support, stakeholders' involvement, financing, etc.) are not important. They are likely to be highly important, but do not show any essential difference in their status in our cases which could contribute to an explanation of the reasons for project success or failure.

The key lessons learned<sup>30</sup> could be defined as follows:

- A clear project action plan and secured funds are not enough to provide initial implementation results, even under circumstances of real urgency and with strong local political support.
- If there is no local control over the physical resources that are necessary for project implementation, or if intended use of resources is restricted because of some barrier, real implementation of the project tends to be delayed until provision of such control is provided or barriers are removed.
- If there is local control over resources without other barriers, the level of implementation success is linked to the quality of relevant project know-how and project management skills available, and to the type of selected principal project developer.
- If project management skills are critical or weak and the principal developer is from the public sector, project implementation is likely to immediately be bogged down by a highly bureaucratic, inefficient style of performing activities

*Table 6.*  
Success/Failure Factors: Key Findings

Specific projects	Implementation success	Selected success/failure factors		
		Key resources (other than human and finance)	Human resources	Principal Developer
Prijedor Business Incubator	Project is substantially late. Real outputs are still missing.	Critical (physical resources not controlled by the local level)	Critical (lack of both know-how and PM [Project Management] skills)	Public sector (PREDA)
Zenica Business Incubator	Achieved results are substantially less than expected.	Medium (physical resources partially controlled by the local level)	Critical (lack of know-how and weak PM skills)	Public sector (Department of Economy and ZEDA)
Brčko Business Incubator	Project is substantially late. Real outputs are still missing.	Weak (use of the physical resources restricted because of property issues)	Weak (weak PM skills)	Public sector (BDDA and Department of Economy)
Prijedor Business Zone	Project is substantially late. Real outputs are still missing.	Critical (physical resources not controlled by the local level)	Critical (critical PM skills)	Public sector (PREDA)
Zenica Business Zone	Achieved results are substantially less than the expected.	Medium (physical resources partially controlled by the local level)	Weak (weak PM skills)	Public sector (municipal public company and Department of Economy)
Brčko Arizona Market Zone	Impressive success in terms of both outputs and outcomes	Strong (resources completely available and controlled by the local level)	Weak (weak PM skills)	Public-private partnership: BOT method (Build, Operate, and Transfer)

without concern for the timeframe or expected results. Proper application of the PPP concept with a competent and motivated private developer can be very effective in preventing this.

Additionally, several key local informants stressed that implementation success would improved by an active M&E system and with stakeholders (from both private and non-governmental sector) playing an active role.

### 3. WHAT TO DO?—FOCUS ON IMPLEMENTATION

#### 3.1 New Energy for Development in BH

The fact that there are more and more local governments using strategic planning (as demonstrated in the UNDP research at the beginning of this paper) strongly indicates that there is new energy for development at the local level in BH. Still, two of our three cases demonstrate an evident lack of success in implementation of both LED strategies and priority projects concentrated on development of physical infrastructure for entrepreneurship and SME development. Without some level of implementation success, effectiveness of such strategies is likely to be close to zero (*effectiveness = planning x implementation*). Lack of effectiveness (if it continues) could lead to disappointment for both key local and international protagonists of LED in BH, thereby diminishing local enthusiasm and energy on one side, and necessary financial and technical assistance on the other.

To avoid such a scenario, utilization of obvious and growing interests on the part of both donors and municipalities for strategic planning at the local level urgently calls for new policy solutions and new practices. This refers to domestic authorities (at practically all levels, as policy solutions are regulated at upper levels and applied at the local level) as well as to international donors, in order to ensure maximum effectiveness of the funds paid by their taxpayers.

#### 3.2 Let's Help It Grow!

There is no time to wait. That is why the first criterion for selection of policy options is *feasibility within a short period* (less than two years). Besides that, redesigning policies for support of local development in BH, backed by domestic and international actors, should ensure three very important things:

- *Accelerated implementation of strategic plans and priority projects*: to realize plans and projects within the defined planning timeframe.
- *Improved effectiveness*: to reach goals and expected results.
- *Strengthened local capacities*: to ensure sustainable management for local development.

The following three policy options have been considered, with their expected effects:

Policy options	Consequences (with evidence from the cases)
1. <b>Status quo</b> (Local development planning as a basic competency of local self-government is not accompanied by necessary resources; international assistance limited to the planning phase)	Continuation of inefficiency in regard to implementation of both LED strategies and priority projects concentrated on development of physical infrastructure for entrepreneurship and SME development (as clearly demonstrated in the cases of Prijedor and Zenica). Even worse, it might result in disappointment among key local and international players, losing local enthusiasm and energy on one side, and necessary financial and technical assistance on the other.
2. <b>Selective transfer of powers</b> related to management of local resources to the cities combined with a <b>rapid improvement of local development management capacity</b> and <b>more intensive application of PPP</b>	Transfer of necessary powers will ensure the timely start of priority projects (as demonstrated by the business zones in Brčko and Zenica), timely preparation of both strategy management and project implementation capacity (as demonstrated in Brčko case), as well as an efficient and effective implementation of the projects related to building and managing physical infrastructure (as demonstrated in the case of the Arizona business zone).
3. <b>Genuine functional and fiscal decentralization</b> with a flexible multi-layered local government structure ensuring high levels of power and resources regarding LED management for second-tier cities	Brčko—the real development success story—is the best example of the positive and swift effects of functional and fiscal decentralization.

The second highlighted option is recommended mainly because of its short-term feasibility. The third option is not feasible in the short-term, but it is very promising as a long-term option.

The preferred option is a mixture of policy and practices. This is because the present situation of LED in BH is more a matter of practices than a coherent policy, as described

in the first part of the chapter. It must be so, in order to provide a workable solution that can be applied in a timely manner.

Basic recommendations on how to introduce a set of new solutions are listed below.

What to do	How to do it
Selective transfer to local government of powers related to management of local resources	Initiate a special local government project (as a priority of a broader decentralization strategy) which implies development and introduction of a new model of management for local resources while ensuring key participation of the cities.
Early assessment of local capabilities for LED planning and implementation with appropriate management of local knowledge infrastructure	Map intellectual capital; create a local knowledge infrastructure information database; build up project management skills.
Creation of a special development management unit within the local administration structure	Create a special office for local development management within the mayor's cabinet with the following key tasks: development of ToRs, launching projects, M&E, reporting, update, and revision.
More intensive application of PPP (with private investors as principal developers)	Promotion of PPP modalities with practical know-how.

In next few pages these recommendations will be elaborated according to targeted LED protagonists in BH.

### 3.2.1 Recommendations to Entity and Cantonal Authorities

In considering domestic authorities, it is obvious that handing down the task of local development planning at the local level is not enough.<sup>31</sup> Managing local development becomes a very important question in the modern age, which is characterized by *glocalization* (a synergy between globalization and localization), especially for transition countries. New perspectives in implementation ask for more, and more now. Based on the lessons learned from the first modern BH cases of LED, the following key components of new policy solutions are strongly recommended to the entity and cantonal authorities in BH:

1. Devolve partial or full control over the local resources required for implementation of development plans and projects, coupled with urgent transfer of local assets to local governments (*our cases clearly demonstrate both situations: delays*

*and inefficiency when such control is missing, and efficiency when local control over resources exists).*

2. Create a special capacity within the local government dedicated to overall management of strategy implementation with M&E, fund raising, and strategy revision as key tasks (*our cases have demonstrated an insufficient scope of the current concept, overloading LEDAs with priority projects, without proper capacity for overall management of strategy implementation*).
3. Systematically build capacity for implementation of strategic plans and projects, with special focus on project management skills in the field (*our cases support an emerging hypothesis that skilled and experienced project managers are the most critical labor profiles currently in BH: growing demand is visible for efficient implementation of more and more projects on site, while there is no increase in supply*).
4. Encourage and support PPP as an effective method for implementation of large-scale projects and their efficient and specialized management (*there is no time to wait—the public sector has neither resources nor necessary expertise, and lacks an efficient attitude*).

The first two recommendations require further elaboration.

**Devolution of control over resources** can be introduced as a special project (or as part of a broader decentralization process) which implies development and introduction of a new model for controlling and managing local resources, while ensuring the participation of local units. In this way, material preconditions can be created for responsible management of local development, at the same time—based on the concepts of sustainable development—rendering implementation of strategic plans much more efficient. The following activities and results can be expected:

*Expected results:*

- relevant analysis of the current legislative framework and situation regarding use of local resources
- appropriate inventory of local resources
- development and approval of criteria for distribution of rights of disposal and management of local resources
- development of basic model or models for control and management of local resources, with appropriate simulations
- establishment of system of recommendations for legislative and practical introduction of new solutions.

*Main activities:*

- formation of the project team and defining appropriate methodology
- formation of an appropriate body of representing interested parties and levels of

government (to coordinate and discuss the project team's findings and recommendations)

- preparation of an initial inventory of local resources
- implementation of appropriate policy analyses
- development and verification of criteria
- development of variants on the basic model, with appropriate simulations
- selection of the main variant, with a high level of consensus among interested parties
- development and verification of a system of recommendations for introducing new solutions.

**Creation of management capacity** can be implemented as a special office within the mayor's cabinet. This office is not a substitute for LEDAs, which have concentrated almost completely on implementation of priority projects. Instead, it is a substantial complement designed to ensure efficient and proactive management of the strategy implementation with annual update of the strategy institutionalized. Key tasks of the office should comprise:

- development of terms of references for projects initiated by the strategy
- launching projects
- development of appropriate M&E systems, monitoring and evaluation of the strategy implementation, evaluation of projects
- reporting to the mayor, parliament, and stakeholders forum (partnership group)
- annual update and revision of the strategy.

### 3.2.2 Recommendations to Donors

Taking donors into account, it is obvious that ensuring technical and financial assistance during planning phase is not enough. In response to the first lessons learned, the emphasis should be placed on implementation, simultaneously re-assessing support for planning. Redesigned international support policies should reflect the following lessons learned:

1. Always insist on a timely and appropriate assessment of local capacity for local development—in the earliest stages, or even before the local economy assessment. This capacity will decisively influence success or failure of implementation.
2. Start to build local capacity to manage local development challenges as early as possible—also in the planning phase. When planning is complete it is already too late.



3. Encourage strategies that are written and understood locally, even if they are “less perfect.” Local ownership is infinitely more important than beautiful web presentations.
4. Focus much more on the implementation framework—the whole project can become useless without an overall LED implementation plan, realistic project action plans, and especially, clear monitoring and evaluation systems.
5. Expand the duties and responsibilities of external consultants to include implementation—they will think more about substance and less about form.
6. Increase length of time of donor programs to allow strategy development and implementation through performance-based milestones

### 3.2.3 Recommendations to Local Decision-makers

Finally, four key recommendations to local decision-makers follow:

1. Provide a structured framework for implementation of the strategy (beyond LEDA)<sup>32</sup> by creating the strategy management office within the mayor’s cabinet, as elaborated above. This will, in the short term, connect development initiatives with projects, and, in the longer term, make the work of the administration more project-based.
2. Do not stop the activities of the stakeholders forum when a strategic plan is prepared. The involvement of key local stakeholders from both the private and NGO sector is even more important during implementation. Only they can create an entrepreneurial atmosphere and apply pressure for efficiency—bureaucrats will never manage it alone.
3. Understand that project planning and implementation are new concepts for local staff. In light of this—do not ask municipal bureaucrats to manage development projects, but hire skilled and experienced project managers and invest in developing new managers.
4. Start using new opportunities offered by PPP to complement lacking public funds for capital investment and to ensure efficiency. Carefully identify risks and allocate risk factors between partners.

### 3.2.4 Methodological Improvements for Consultants

Planning methodology could be improved by applying broader concepts of knowledge management and knowledge infrastructure as key ideas in the knowledge economy. This can be done by creating a *local knowledge infrastructure information base*. “The information

base should provide capabilities to represent the knowledge nodes, including organizations, individuals, and community collaborations, and to represent the interconnections between the knowledge nodes” (Zellmer 2001). This idea has a lot of in common with *mapping of intellectual capital* (Radovanović 2003; PriceWaterhouseCoopers 2004) as a new strategic tool to help city leadership compete in the global knowledge economy. With such an information base created in the early stages of the planning process (as part of the assessment of the local economy) implementation infrastructure available to the LED strategy will be identified and assessed in a timely manner. Even more important, this would build a new philosophy for strategic LED planning: *a strategy based on local knowledge infrastructure*.

### 3.3 Long-term Follow-up

The new approaches and solutions recommended above could be (and should be) developed and applied in the short term. This should (and will) substantially improve growing local economic development practices.

In a broader and longer-term perspective, new BH and international reform policies should be substantially redirected. The current reform process is top-down, changing relations between central and entity levels, by centralizing competencies and resources, and putting centralization first and decentralization last, with an almost negligible role for representatives of local government in the reform process (Miovčić 2006).

Lessons learned from Brčko’s success should open a new perspective for policy in BH. New policies should facilitate and accelerate essential decentralization processes based on the utmost respect for the principle of subsidiarity and principles of the European Charter of Local Self-Government. As already stated in a recently launched vision of local government (*New Local Self-Governance—New Quality of Life in BH*): “New local self-governance will be a synonym for responsible and proactive management of local development and local affairs” (EDA 2006). This requires an essential and simultaneous functional and fiscal decentralization that ensures modern leadership and new forms of partnership and, as elaborated in detail in the recently published *Local Government Development Strategy in BH*. As that strategy clearly advocates a new model of flexible, multi-layered local government structure (instead of the currently rigid one-layered structure) its implementation will open a new window of opportunity for second-tier cities in BH.

Once again, the message is clear: **There is new energy for development in Bosnia and Herzegovina—Let’s help it grow!**

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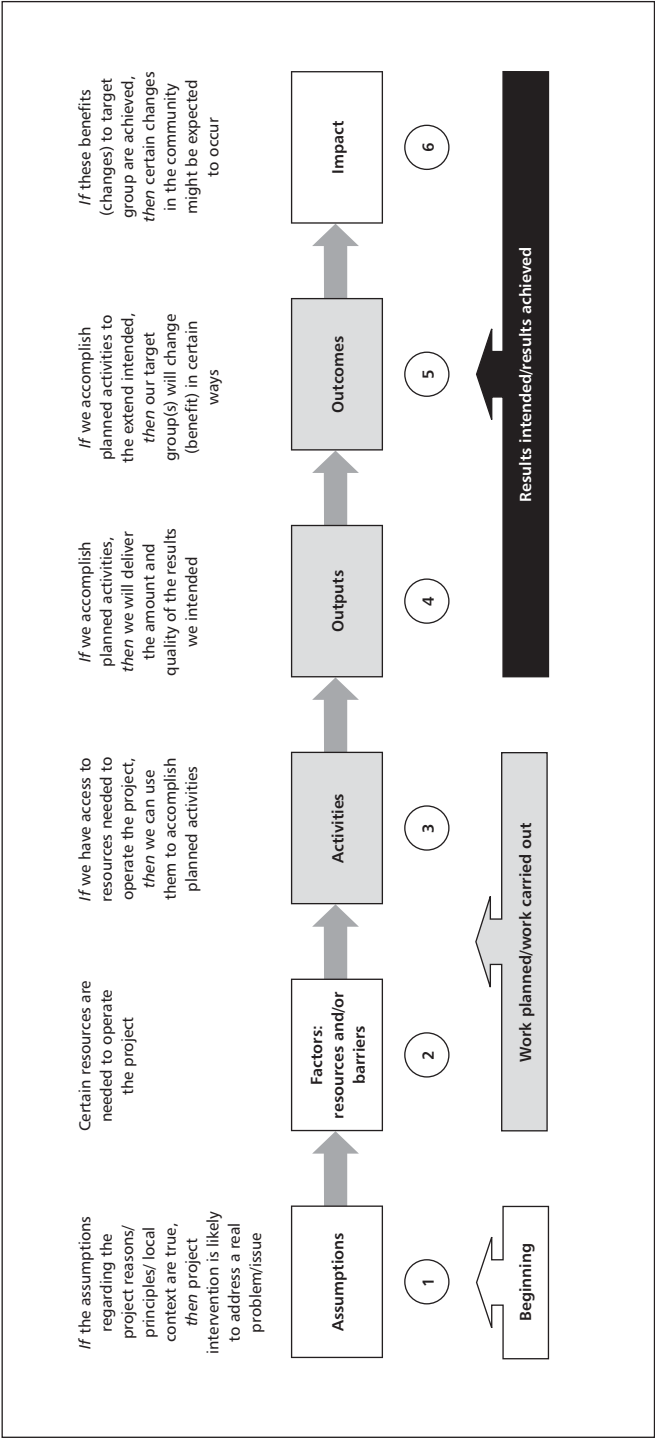
ANNEX 1.

Territorial-Administrative Map of Bosnia and Herzegovina



ANNEX 2.

Basic If-Then Project Logic Model



## ANNEX 3.

## Distribution of Functions and Powers between Government Levels

Functions and Powers	Federation BH	Republika Srpska	Brčko District
<b>Economy</b>	Only crafts and catering are exclusively under the jurisdiction of municipalities; jurisdiction for areas of trade, tourism, and employment is shared between municipal and cantonal level; regulation of other areas is under entity jurisdiction.	Only regulation and registration of crafts and shops are exclusively under the jurisdiction of municipalities; regulation of the other areas is under entity jurisdiction.	Completely under the jurisdiction of BD.
<b>Finances</b>	Local unit revenue in BH is very modest, and their original revenue is particularly low. The dominant segment is joint revenue and revenue controlled by upper levels of government (municipalities receive only eight percent of total public revenue in both entities). In both entities, municipalities cannot influence the volume or the quality of the tax bases used for shared taxes (sales tax and income tax) or local taxes (property tax and real trade tax).		Completely under the jurisdiction of BD.
<b>Custom Administration</b>	Completely under entity jurisdiction.	Completely under entity jurisdiction.	Completely under the jurisdiction of BD.
<b>Public Property</b>	Only management of municipal properties, mostly related to communal services.	Only management of municipal properties, but ownership and management of communal utility companies are in the hands of RS entity authorities.	Completely under the jurisdiction of BD.

Functions and Powers	Federation BH	Republika Srpska	Brčko District
<b>Public Services/ Infrastructure</b>	Electricity and gas supply powers are divided between canton and federation; competencies regarding roads and bridges are divided between canton and municipality; organization of communal utilities and maintenance of local infrastructure are within municipal competencies.	Electricity supply is an exclusive entity competency; competencies regarding roads and bridges are divided between entity and municipality; organization of communal utilities and maintenance of local infrastructure are within municipal competencies.	Completely under the jurisdiction of BD.
<b>Education</b>	Divided between canton and federation, but mostly at the cantonal level; only adult training is a municipal responsibility.	Completely at the entity level; only adult training is a municipal responsibility.	Completely under the jurisdiction of BD.
<b>Statistics</b>	Organized at the entity level.	Organized at the entity level.	Organized at the level of BD.
<b>Environment</b>	Environment protection and management is regulated by the canton; municipalities develop their own programs.	Environment protection and management is a municipal responsibility.	Completely under the jurisdiction of BD.
<b>Urban Development and Zoning</b>	Municipalities are responsible for their own urban plans; spatial plans are shared between cantons and municipalities.	Municipalities are responsible for urban and spatial plans, as well as for building and construction licenses.	Completely under the jurisdiction of BD.



## ANNEX 4.

Comparison of Fiscal Frameworks in BH (2004)<sup>33</sup>

Fiscal forms		FBH (Zenica)	RS (Prijedor)	Brčko District
Indirect taxes	Excise and Custom	Agreed at the state level and used completely at the level of FBH.	Agreed at the state level and used completely at the level of RS.	Agreed at the state level and used completely by BD.
	Sales tax	Defined completely at the level of FBH. 7.8 percent transferred to municipalities.	Defined completely at the level of RS. 30.3 percent transferred to municipalities.	Defined and used at the level of BD.
Direct taxes	Profit tax	Paid according to FBH law; the tax rate is 30 percent on declared profit (reduced for the investment costs). 2.2 percent transferred to municipalities.	Paid according to RS law; the tax rate is 10 percent on declared profit (reduced for investment costs); no transfer to municipalities.	Paid according to the BD law; the tax rate is 10 percent (as of January 2004).
	Salary tax	Paid according to FBH law to the FBH budget; tax rate is five percent of net salary. Eighteen percent transferred to municipalities.	Paid according to RS law to the RS budget and shared between the RS and municipal budget (25 percent); the tax rate is 10 percent of net salary. 23.1 percent transferred to municipalities.	Paid according to BD law and budget; the tax rate is 10 percent (as of July 2003).
	Tax on citizens' yearly income	Paid according to cantonal law to the municipal budget; the tax rate can be from 10 percent to 40 percent with corresponding deductions.	Paid according to RS law to the RS budget and shared between the RS and municipal budget (25 percent); the tax rate is 10 percent with corresponding deductions.	There is no double-taxation of income.

Fiscal forms		FBH (Zenica)	RS (Prijeđor)	Brčko District
Direct taxes	Social contributions	Paid according to the FBH law to funds (pension, health insurance, unemployment); 64 percent of net salary; no transfer to municipalities.	Paid according to RS law to funds (pension, health insurance, unemployment); 42 percent of net salary; no transfer to municipalities.	Paid according to RS and FBH laws, depending on whose funds the company is connected with.
	Property tax	Defined by cantonal law and split between the canton and municipality; property is taxed at absolute value by surface area; transactions on real estates are taxed at the rate of five percent of market value.	Defined by RS law, revenue of the municipal budget; property is taxed in absolute value by surface area; transactions on real estates are taxed at the rate of three percent of market value.	Partial use of the RS Law on property tax from 1994; tax rate for transactions of real estates is three percent of market value, while ownership of real estate is not taxed.
Non-tax revenues		Share of municipalities in other, non-tax revenues was 44.9 percent.	Share of municipalities in other, non-tax revenues was 24.74 percent.	Completely used by the BD budget.

## ANNEX 5.

## Planning Framework

Aspects	Brčko <sup>34</sup>	Zenica <sup>35</sup>	Prijedor <sup>36</sup>
History of strategic planning	None	Outsourcing—the Zenica Mechanical Engineering Faculty prepared a general development strategy using a traditional approach	Traditional approach <sup>37</sup>
Initiation of the strategic planning process	BD and a European Commission Delegation	The municipal government applied to an open call (by the World Bank) to cooperate in LED	The municipal government applied to an open call (by the World Bank) to cooperate in LED
Design of planning methodology	European Commission team of experts	SEED Project with WB assistance	SEED Project with WB assistance
Management of the strategic planning process and technical assistance	Managed by the Strategic Planning Forum (key representatives from public, private, and nongovernmental sectors); TA provided by EU Regional Development BD Project	SEED Business Development Officer, TA provided by two consulting companies (from Slovenia and Croatia) and a WB specialist	SEED Business Development Officer, TA provided by two consulting companies (from Slovenia and Croatia) and a WB specialist
Financing of the planning process	EU Regional Development BD Project	Shared by SEED project and the municipality	Shared by SEED project and municipality
Assessment of local institutional capacities for strategic planning	Completed at the start of the planning process, resulting in the creation of the BD Development Agency	No	No

Aspects	Brčko <sup>34</sup>	Zenica <sup>35</sup>	Prijedor <sup>36</sup>
Participation of LED team	Brčko District Development Agency created in the beginning of the planning process and formally established in April 2001	Small LED team (without proper authorization)—most of the job was carried-out by two very active team members	All members of the LED team were actively involved except of the team leader (Chief of the Department of Economy)
Participation of local stakeholders	Through the Strategic Planning Forum and three working groups (economic development, social development, spatial development); intensive in the stage of developing strategic goals and priorities	Very active during the whole planning process—through an informal Stakeholders' Forum (mayor, key municipal departments, cantonal ministries of economy and agriculture, the chamber of commerce, three business associations, some NGOs, representatives from political parties, some professors from the university) and thematic working groups	Active participation by the public sector, weak participation by the private sector (local business associations were inactive), some students and NGO representatives—through an informal stakeholders' forum and thematic working groups
Training of local stakeholders for strategic planning	Learning by doing	Organized as the first activity for each planning stage; special training related to SME development was provided	Organized as the first activity for each planning stage; a study visit to Slovenia for the LED team was organized
Participation of other levels of government	No	Active participation by the cantonal ministries of economy and agriculture, as well as the federal Ministry of Economy	No
Political support for planning	Very strong	Strong	Very strong support from the mayor, resistance from the main opposition party

Aspects	Brčko <sup>34</sup>	Zenica <sup>35</sup>	Prijedor <sup>36</sup>
Local economy assessment	Main weakness: lack of almost any reliable statistical data Main strength: qualitative data collected using focus groups	Main weakness: very partial, not in-depth assessment of local institutional capabilities regarding LED Main strength: qualitative data collected using an extensive questionnaire; SWOT analysis	Main weakness: very partial, not in-depth assessment of local institutional capabilities regarding LED; low contribution by the private and NGO sectors Main strength: qualitative data collected using an extensive questionnaire; SWOT analysis
Strategy design	Mainly defined by consultants from EU RED BD Project; better quality of vision and strategic goals than of program and projects; development objectives were not defined as SMART; programs and projects were not outlined	Generic goals and objectives (could be applied to almost any municipality); objectives were not defined as SMART; too many projects; weak logical consistency between the goals, objectives, and projects	Generic goals and objectives (could be applied to almost any municipality); objectives were not defined as SMART; too many projects; weak logical consistency between the goals, objectives, and projects

## ANNEX 6.

## Implementation Framework

Aspects	Brčko	Zenica	Prijedor
Prioritizing and selecting projects	Ten projects were selected as priorities (out of 23) based on assessment of contribution to the strategic goals (assessed by consultants from EU RED BD Project	Four projects were selected as priorities (out of 36) by the Stakeholders Forum, based on criteria of importance and urgency	Five projects were selected as priorities (out of 32) by the Stakeholders Forum, based on criteria of importance and urgency
Inclusion of “early-win” projects	Included—one-stop-shop implemented immediately	Included—one-stop-shop implemented immediately by CHF (financed by USAID)	Included—one-stop-shop implemented immediately by SEED (financed by SDC)
Overall LED strategy implementation plan	Not defined	Standard short form containing list of projects with costs and potential sources of funding, timeframe, and responsibilities for each project	Standard short form containing list of projects with costs and potential sources of funding, timeframe, and responsibilities for each project
Individual project action plans	Standard project fiches for some selected priority projects were prepared	Very detailed action plans for priority projects, prepared mostly by local experts	Basic, not detailed, with rough estimation of costs
Monitoring and evaluation system for strategy implementation	No	No	No

Aspects	Brčko	Zenica	Prijedor
Resources needed to implement priority projects (land, buildings, infrastructure)	Completely controlled by the BD government	Partially controlled by the municipal authorities; not mentioned as critical in the action plans	Partially controlled by the municipal authorities; not mentioned as critical in the action plans
Assessment of local institutional capabilities to implement LED strategy and specific projects	Carried out in during preparation of project fiches	No	No
Building of local capacity to implement LED strategy and specific projects	Proactive creation of the BD Development Agency during the planning process	Provided during the last two months to the project teams established for implementation of priority projects	No
Organizational and technical support for strategy implementation—Strategic Implementation Unit (SIU)	BD Development Agency established during the planning process, well-prepared for implementation; the agency directly implements key business support projects and contributes to design and implementation of the others	ZEDA created as one of the first projects, established one year after adoption of the strategy; three main groups of tasks: preparation and implementation of the projects <sup>38</sup> defined by the strategy, provision of business services to SMEs, management of new entrepreneurship infrastructure (incubator, business zone, etc.)	PREDA created as one of the first projects, established in 2004; responsible for implementation of almost all projects and reporting to the municipal assembly
Equipping and funding of the SIU	Fully equipped, one of the best equipped training and business support centers in BH; financed from three sources: the BD budget, donors (project implementation) and income from services	Fully equipped one year after adoption of the strategy; two-thirds of funding from the municipal budget and one-third from donors (project implementation)	Established and fully equipped during the first year of the strategy implementation; funded from the municipal budget

Aspects	Brčko	Zenica	Prijedor
Quality of SIU staff	Team of ten <sup>39</sup> well-educated young specialists (average 30 years old); three of them learned some project management skills	Small team (director, business specialist, and administrator) with limited capacities; director participated in some intensive training programs related to preparation and implementation of strategies; it took almost one year to build initial capacity of the ZEDA staff	It took one year to build initial capacity of staff to deal with strategy implementation issues and LED tools; <sup>40</sup> very experienced director with young team (started first as volunteers and later hired as employees); team of three plus one will be expanded in 2006 (budget for seven employees)
Participation of the SIU staff during the process of strategic planning	Key staff participated actively	Only the director participated, but not actively	Only the director participated, but not actively
Adoption of the strategy	BD government adopted it in January 2002; BD Parliament in April 2002	Adopted unanimously by the municipal assembly adopted in September 2003	Adopted by the municipal assembly adopted at the end of January 2004.
Responsibility for implementation	Mayor of BD with the Department of the Economy	Mayor with the Department of the Economy; recently ZEDA has begun to take over some responsibilities, with full assistance of a key representative of the Department of the Economy	Mayor, with PREDA (Prijedor Economic Development Agency)
Financing of implementation	Included in the BD budget for the first year of implementation, later on in the capital budget of 2003-2007 Sufficient funds from BD budget, EU funds and other sources (mainly donors)	The municipal government approved initial funds for each of the priority projects; included in the municipal budget (from 2004 on, yearly budgeting); sufficient funding from the municipal budget, some EU funded projects; contributions from cantonal and federal budget	Included in the municipal budget (from 2004 on, yearly budgeting) Sufficient funding from the municipal budget and some international projects



Aspects	Brčko	Zenica	Prijedor
Monitoring and evaluation	Mayor of BD with the Department for Economy; no real involvement by the BD Parliament	Annual reporting to the Municipal Assembly without proper indicators (bureaucratic reports from the Department of the Economy)	Annual reporting to the Municipal Assembly without proper indicators (bureaucratic reports from the PREDA)
Involvement of the Stakeholders Forum in monitoring and evaluation	No	No; SF has not met after the strategy was adopted	No. SF has not met after the strategy was adopted. There was an initial meeting of key representatives of the public, private, and nongovernmental sectors with 53 participants who expressed much interest in forming a partnership group for local development, but it was delayed by municipal authorities

## ANNEX 7.

## Review of Project Implementation Status

PRIJEDOR Project title	Proposed timeframe <sup>41</sup> (start–end)	Responsible for implementation <sup>42</sup>	Project action plan developed	Project status (As of December 2005) <sup>43</sup>
1. Foundation of the Stakeholder Forum and other development coalitions	Feb 03–ongoing Second quarter of 04	Municipality Agency	No	SF has not had a single meeting since the strategy was adopted. There was an initial meeting of key representatives of the public, private, and nongovernmental sectors with 53 participants who expressed much interest in forming a partnership group for local development, but it was postponed by the municipal government and PREDA until work on the overall development strategy starts.
2. Completion of the joint overall Prijedor Development Strategy	March 03–April 04 End of 04	Agency Municipality	No	Never started; delayed because of local elections organized in October 2004. Detailed project action plan developed by PREDA and submitted to the mayor. Waiting to be presented to the Municipal Assembly.
3. Staff training in municipality and institutions for support to SMEs for better performance and barrier removal	March 03–March 04	Municipality	No	No information.
4. Foundation of one-stop-shop in the municipality	March 03–March 04	Municipality	Yes, basic	Implemented as a part of LGSA project (implemented by PADCO, funded by USAID). No monitoring follow-up.

PRIJEDOR Project title	Proposed timeframe <sup>41</sup> (start–end)	Responsible for implementation <sup>42</sup>	Project action plan developed	Project status (As of December 2005) <sup>43</sup>
5. Creation of municipal non-financial forms of support to entrepreneurship development	Oct 03–ongoing	Municipality	No	No information. Has never been treated as a priority.
6. Promotion of entrepreneurship and opportunities it offers	Oct 03–ongoing	Agency	No	No information. Has never been treated as a priority.
7. Promotion of entrepreneurship and successful entrepreneurs	Oct 03–ongoing	Agency	No	No information. Has never been treated as a priority.
8. Promotion of joint projects and cooperation	Feb 04–ongoing	Agency	No	No information. Has never been treated as a priority.
9. Co-financing of promotion materials, business meetings, and business networking	July 03–ongoing	Chamber	No	No information. Has never been treated as a priority.
<b>10. Foundation of the Prijedor Development Agency</b>	Feb 04–ongoing	Municipality	Yes, basic	One of five priority projects. Established and fully equipped during the first year of implementation. It took one year to build initial capacity of staff so they could deal with implementation issues and LED tools. <sup>44</sup>
11. Foundation of the Financial Fund (micro-credit schemes, guarantee schemes, subsidies)	Nov 03–April 04	Agency	No	Never started. Has never been treated as a priority.

PRIJEDOR Project title	Proposed timeframe <sup>41</sup> (start–end)	Responsible for implementation <sup>42</sup>	Project action plan developed	Project status (As of December 2005) <sup>43</sup>
12. Foundation of one-stop-shop for businesses	Oct 03–July 05	Agency	Yes, basic	One of five priority projects. Implemented immediately, even before strategy adoption, because there was funding available from SDC; implemented as a SEED project.
13. Creation of entrepreneurship incubator	Dec 03–Oct 04 Last quarter of 04	Agency	Yes, basic	One of five priority projects. Still waiting for real implementation. Municipality has not had any control over the CELPAK (a large industrial complex, controlled by the entity government, which entered bankruptcy process with a lot of available but unused business premises) where placement of the incubator was initially planned. In April 2004 PREDA developed a project document to create an incubator in LjUBIJA (a large mining company twenty kilometers out of the city, controlled by the entity government) but after privatization of the company by strategic investment the idea was abandoned. Current efforts are focused on installing the incubator in former army barracks (recently handed over to the municipality) but still without any real progress.
14. Creation of the business zones with improved utilities and infrastructure	Oct 03–Oct 05 Third quarter of 04	Agency and municipality	Yes, basic	One of five priority projects. Still waiting for real implementation. The municipality has not had any available and appropriate land to be used for the industrial zone.
15. Creation of rural area development center	Dec 03–ongoing	Agency	No	Has never started. No information. Has never been treated as a priority.

<b>PRIJEDOR Project title</b>	<b>Proposed timeframe<sup>41</sup> (start–end)</b>	<b>Responsible for implementation<sup>42</sup></b>	<b>Project action plan developed</b>	<b>Project status (As of December 2005)<sup>43</sup></b>
16. Simplification of registration procedures for new companies	Oct 03–ongoing	Municipality	No	No information. Has never been treated as a priority.
17. Introduction of voucher and other schemes of support to dynamic SMEs (consulting, preparation of business plans for banks, consulting for internationalization of business)	Feb 04–ongoing	Agency	No	No information. Has never been treated as a priority.
18. Projects supporting quality development and introduction of ISO and CE standards in SMEs	Feb 04–ongoing	Chamber and agency	No	Ongoing. PREDA has been linking interested local companies with available international and domestic funds covering 50 percent of the consultancy costs.
19. Projects to group enterprises into networks and clusters	April 04–ongoing	Agency	Yes, basic	There was an idea to create an agricultural cluster around PRIJEDORCANKA, the main local exporter of beverages, it was one of five priority projects, but has never started. Later efforts were redirected to the wood-processing sector to establishing local business associations, with good development.
20. Organization of a number of meetings with SMEs from neighboring countries	April 04–ongoing	Chamber	No	Ongoing. PREDA is becoming more and more active in linking local companies with potential foreign partners, especially from Italy.

PRIJEDOR Project title	Proposed timeframe <sup>41</sup> (start–end)	Responsible for implementation <sup>42</sup>	Project action plan developed	Project status (As of December 2005) <sup>43</sup>
21. Support towards internationalization (organizational and financial) of SMEs for participation in fairs, expositions, and conferences	Feb 03–ongoing	Agency	No	Ongoing. PREDA organized (with some international partners) the participation of local companies in fairs in Italy and Austria.
22. Analysis of human resources and needs of SMEs and major enterprises, by number and type of skilled workers	Nov 03–May 04	Agency	No	No information. Has never been treated as a priority.
23. Analysis of existing education and training programs	Nov 03–May 04	Agency	No	No information. Has never been treated as a priority.
24. Development of new training programs and change/adjustment to existing SME needs	April 04–May 04	Agency	No	Implemented for wood-processing enterprises.
25. Development of financial scheme–subsidies for new job creation	Feb 04–June 04	Agency	No.	No information. Has never been treated as a priority.
26. Support employment of young graduates	March 04–ongoing	Agency	No	No information. Has never been treated as a priority.

PRIJEDOR Project title	Proposed timeframe <sup>41</sup> (start–end)	Responsible for implementation <sup>42</sup>	Project action plan developed	Project status (As of December 2005) <sup>43</sup>
27. Support to development of supplementary industries in rural areas	April 04–ongoing	Agency	No	No information. Has never been treated as a priority.
28. Support networking and entrepreneurship initiatives for women	March 04–ongoing	Agency	No	No information. Has never been treated as a priority.
29. Support employment of disabled persons and people with limited working ability	Feb 04–March 04 (?)	Agency	No	No information. Has never been treated as a priority.
30. Development of special education programs for entrepreneurs and workers from various sectors	Dec 03–March 04	Agency	No	No information. Has never been treated as a priority.
31. Development of general education program for start-up entrepreneurs and students	Dec 03–Jan 05 Last quarter of 04	Agency	No	Well-implemented from Oct 2004 to May 2005, funded by the municipality and SDC-GTZ. To be continued.
32. Development of vocational training programs for adults	Feb 04–Jan 05	Agency	No	No information. Has never been treated as a priority.

ZENICA Project title	Proposed timeframe <sup>45</sup> (start–end)	Responsible for implementation <sup>46</sup>	Project action plan developed	Project status (As of January 2006) <sup>47</sup>
1. Continuation of activities of Stakeholders Forum and other development coalitions	Sept 03–ongoing	Municipality and agency	No	SF has not had a single meeting since the strategy was adopted. No other development coalition created.
2. Staff training in the municipality and institutions for support to SMEs for better performance and barrier removal	Sept 03–Feb 04	Municipality	No	No information.
3. Improvement of performance of one-stop-shop	Sept 03–March 04	Municipality	No	No information. Has never been treated as a priority.
4. Creation of municipal non-financial forms of support to entrepreneurship development	Sept 03–ongoing	Municipality	No	No information. Has never been treated as a priority.
5. Promotion of entrepreneurship and opportunities it offers	Sept 03–ongoing	Agency	No	No information. Has never been treated as a priority.
6. Promotion of entrepreneurship and successful entrepreneurs	Sept 03–ongoing	Agency	No	Ongoing. Being implemented by ZEDA.
7. Promotion of joint projects and cooperation	Sept 03–ongoing	Agency	No	No information. Has never been treated as a priority.



ZENICA Project title	Proposed timeframe <sup>45</sup> (start–end)	Responsible for implementation <sup>46</sup>	Project action plan developed	Project status (As of January 2006) <sup>47</sup>
8. Co-financing of promotion materials, business meetings, and business networking	Jan 04–ongoing	Chamber	No	No information. Has never been treated as a priority.
9. Foundation of Zenica Development Agency	June 03–ongoing	Municipality	Yes, basic	One of four priority projects. Established and fully equipped one year after the strategy was adopted. It took one year to build initial capacity of staff so they could deal with strategy implementation issues and LED tools.
10. Foundation of the financial fund (micro-credit schemes, guarantee schemes, subsidies)	Jan 04–ongoing	Agency	No	Has never started. Has never been treated as a priority.
11. Foundation of one-stop-shop for businesses	Oct 03–March 04	Agency	No	Implemented with CHF (USAID). Without monitoring or follow-up.
12. Creation of scientific-technological park	Sept 03–June 05	Faculty of Mechanical Engineering	No	Ongoing, but late. Implementation responsibility transferred to the cantonal level—the REZ-REDA regional development agency. Feasibility study completed.
13. Creation of entrepreneurship incubator	Nov 03–Sept 04	Agency	Very detailed	One of four priority projects. Ongoing but late. Achieved results are substantially less than expected (instead of having at least ten new businesses at the end of the first year, there are only four contracts with potential users of the incubator at the end of the second year of implementation). Ongoing activities are focused on transfer of know-how regarding management of the business incubator to ZEDA from an Italian project.

ZENICA Project title	Proposed timeframe <sup>45</sup> (start–end)	Responsible for implementation <sup>46</sup>	Project action plan developed	Project status (As of January 2006) <sup>47</sup>
14. Creation of business zones with improved utilities and infrastructure	Sept 03–Sept 05	BZZ1 (New company, established to manage the BZ)	Very detailed	One of four priority projects. Started even before the strategy was adopted. Ongoing but very late. Results are substantially less than expected. Problems with the slowness of the former owner of the industrial complex and with the inefficiency of project management.
15. Creation of technological park (agriculture, metal processing)	Nov 03–Dec 04	Agency	No	No information. Has never been treated as a priority.
16. Creation of center for development of rural areas	Nov 03–ongoing	Agency	No	Started recently, with substantial delays. Feasibility study completed.
17. Simplification of registration procedures for new companies	Sept 03–ongoing	Municipality	No	Partially realized. No detailed information.
18. Consulting for internationalization of activities	Jan 04–ongoing	Agency	No	No information. Has never been treated as a priority.
19. Introduction of voucher and other schemes of support to dynamic SMEs (consulting, preparation of business plans)	Jan 04–ongoing	Agency	No	No information. Has never been treated as a priority.
20. Projects supporting quality development and introduction of ISO and CE standards in SMEs	Jan 04–ongoing	Chamber and agency	No	Ongoing, but implementation responsibility was transferred to the cantonal level—to the REZ-REDA regional development agency.

ZENICA Project title	Proposed timeframe <sup>45</sup> (start–end)	Responsible for implementation <sup>46</sup>	Project action plan developed	Project status (As of January 2006) <sup>47</sup>
21. Projects to group enterprises into networks and clusters	March 04–ongoing	Agency	No	Ongoing, but implementation responsibility was transferred to the cantonal level—to the REZ-REDA regional development agency. Funding and TA from the USAID CCA project.
22. Organization of a number of meetings with SMEs from neighboring countries	March 04–ongoing	Chamber of Commerce	No	No information.
23. Support (organizational and financial) to SMEs to participate in fairs, expositions, and conferences	Jan 03–ongoing	Agency	No	Ongoing, but still limited to ZEPS (Zenica business fair).
24. Analysis of human resources and needs of SMEs and major enterprises, by number and type of skilled workforce	Oct 03–April 04	Agency	No	No information. Has never been treated as a priority.
25. Analysis of existing education and training programs	Oct 03–April 04	Agency	No	Partially implemented by the secondary school, as part of an ongoing vocational education and training reform.
26. Development of new training programs and change/adjustment to existing SME needs	March 04–Dec 04	Agency	No	No information. Has never been treated as a priority.

ZENICA Project title	Proposed timeframe <sup>45</sup> (start–end)	Responsible for implementation <sup>46</sup>	Project action plan developed	Project status (As of January 2006) <sup>47</sup>
27. Development of financial scheme—subsidies for new job creation	Jan 04–June 04	Agency	No	No information. Has never been treated as a priority.
28. Entrepreneurship training for youth	Oct 03–May 05	Agency	No	Successfully implemented, with support from CHF (USAID) and SDC.
29. Support employment of young graduates	Feb 04–ongoing	Agency	No	Ongoing.
30. Support development of additional activities in rural areas	March 04–ongoing	Agency	No	Ongoing.
31. Support networking and entrepreneurship initiatives for women	Feb 04–ongoing	Agency	No	No information. Has never been treated as a priority.
32. Support employment of disabled persons and people with limited abilities to work	Jan 04–ongoing	Agency	No	No information. Has never been treated as a priority.
33. Development of special education programs for entrepreneurs and workers from various sectors	Nov 03–Feb 04	Agency	No	No information. Has never been treated as a priority.

ZENICA Project title	Proposed timeframe <sup>45</sup> (start–end)	Responsible for implementation <sup>46</sup>	Project action plan developed	Project status (As of January 2006) <sup>47</sup>
34. Development of general education program for start-up entrepreneurs and students	Nov 03–Feb 05	Agency	No	Well-implemented from Oct 04 to May 05, funded by the municipality and SDC–GTZ. To be continued next year.
35. Development of general continuing educational programs	Jan 04–Dec 04	Agency	No	No information. Has never been treated as a priority.
36. Development of financial scheme to co-finance training of target groups	May 04–Oct 04	Agency	No	No information. Has never been treated as a priority.

BRČKO Project title	Proposed timeframe <sup>48</sup> (start–end)	Responsible for implementation <sup>49</sup>	Project action plan developed	Project status (As of January 2006) <sup>50</sup>
1. Creation of business friendly environment	2002–	BD Government	No	Continuous process. BD has a fast growing economy with investment, employment, and other economic data more favorable than in the rest of BH.
2. Entrepreneurship Development Center	2002–	BDDA	Basic	Started even before the strategy was adopted. For the first years (2002–2003) was very active and provided about 200 services for 110 clients. After that period demand for the services was significantly lower.
3. Business registration one-stop-shop	2002–	BDDA	Basic	Started in February 2002. Facilitated registration of more than 500 new business entities.

BRČKO Project title	Proposed timeframe <sup>48</sup> (start–end)	Responsible for implementation <sup>49</sup>	Project action plan developed	Project status (As of January 2006) <sup>50</sup>
4. <b>BD Info Center</b>	2002–	BDDA	Basic	Started on time. Ongoing. No detailed information.
5. Privatization of enterprises		BD Government		Started before the strategy was adopted. Privatization process completed earlier than in BH entities.
6. Establishing credit lines for business support		BD Government	No	Has never started.
7. <b>Business incubator</b>	2002–2004	BDDA	Basic	Currently starting with substantial delays. Funds were provided in 2003.
8. Promotion of Brčko as a place for investment and business	2002–	BDDA	No	Implemented. BD has attracted many investors.
9. <b>Guaranty fund</b>	2003–	BDDA and BD Government	Basic	Ongoing. Successful implementation. There are two credit lines: for SMEs (BAM 1 million) and for rural areas (BAM 300,000).
10. Building strong service and banking sector	2002–	BD Government	No	Not treated as a special project. Visible development of service and banking sector.
11. Industrial zones	2002–	BD Government	Basic	Ongoing. A zoning plan was adopted in August 2004. A first (smaller) industrial zone was successfully developed. A second (larger one) zone is in the process of establishment.
12. <b>Building new infrastructure of Arizona market</b>	2001–2007	BD Government	No	Ongoing, with impressive results up to now. Being implemented as a typical PPP project.
13. Incentives for employment legalization	2002–	BD Government	No	Never treated as a special project. No information.

BRČKO Project title	Proposed timeframe <sup>48</sup> (start–end)	Responsible for implementation <sup>49</sup>	Project action plan developed	Project status (As of January 2006) <sup>50</sup>
14. Self-employment incentive fund			No	Has never started.
15. Agriculture and agri-business sector improvement	2002–	BD Government	No	Never treated as a special project, but several initiatives were undertaken with positive results.
16. Agriculture credit fund	2003–	BDDA and BD Government	No	Joined to the Guaranty Fund (see above).
17. Strengthen management skills of youth	2003–	BDDA	No	Several training programs realized with much success (to be continued)
18. Creation of preconditions for introducing IT in the community	2002–	BD Government	No	Continuous process with significant implementation successes
19. Matching labor offer to labor demand	2003–	BDDA, BD Employment Bureau	No	Some results, not quite impressive, related to retraining.
20. Modernization of the education system	2003–	BD Government	No	Still without visible activities and results.
21. Vocational education and training	2003–	BDDA	No	Some results, not quite impressive, related to IT training.
22. Job mediation center	2002–	BDDA	Basic	Implemented, but without substantial results.
23. Establishing center for industrial technologies and innovations	2002–	BDDA	No	Established within BDDA. Well-equipped. No detailed information.

## ANNEX 8.

## Vision-to-Projects Matrices

## Zenica

Essence of Vision	Strategic Goals and Development Objectives	Projects
<i>In ten years Zenica municipality will be transformed into a strong entrepreneurial center of Bosnia and Herzegovina, with a modern, dynamic, and diversified economy</i>	I. Developed system of institutional support 1. To improve entrepreneurs' satisfaction with the operations of the municipality 2. Active work of the Stakeholders Forum (development coalitions) 3. To build positive entrepreneurial climate	1. Continuation of activities of Stakeholders' Forum and other development coalitions 2. Staff training in the municipality and institutions for support to SMEs for better performance and barrier removal 3. Improvement of performance of one-stop-shop 4. Creation of municipal non-financial forms of support to entrepreneurship development 5. Promotion of entrepreneurship and opportunities it offers 6. Promotion of entrepreneurship and successful entrepreneurs 7. Promotion of joint projects and cooperation 8. Co-financing of promotion materials, business meetings, and business networking
	II. Developed and strengthened physical development infrastructure 1. To establish the most important institutions of physical infrastructure 2. To create business infrastructure for SME development	9. Foundation of Zenica Development Agency 10. Foundation of the Financial Fund (micro-credit schemes, guarantee schemes, subsidies) 11. Foundation of one-stop-shop for businesses 12. Creation of scientific-technological park 13. Creation of entrepreneurship incubator 14. Creation of business zones with improved utilities and infrastructure 15. Creation of technological park (agriculture, metal processing) 16. Creation of center for development of rural areas



Essence of Vision	Strategic Goals and Development Objectives	Projects
<p><i>In ten years Zenica municipality will be transformed into a strong entrepreneurial center of Bosnia and Herzegovina, with a modern, dynamic, and diversified economy</i></p>	<p>III. Strengthening of SME sector and their capacities</p> <ol style="list-style-type: none"> <li>1. To increase the number of SMEs</li> <li>2. To encourage growth of dynamic SMEs</li> <li>3. SMEs entering BH markets and markets in neighboring countries</li> </ol>	<ol style="list-style-type: none"> <li>17. Simplification of registration procedures for new companies</li> <li>19. Introduction of voucher and other schemes of support to dynamic SMEs (consulting, preparation of business plans)</li> <li>20. Projects supporting quality development and introduction of ISO and CE standards in SMEs</li> <li>21. Projects to group enterprises into networks and clusters</li> <li>22. Organization of a number of meetings with SMEs from neighboring countries</li> <li>23. Support (organizational and financial) to SMEs to participate in fairs, expositions, and conferences</li> </ol>
	<p>IV. To create production jobs together with diversified activities</p> <ol style="list-style-type: none"> <li>1. To increase the number employed in SMEs</li> <li>2. To increase the share of new industries in GDP</li> <li>3. Growth of actual salaries</li> </ol>	<ol style="list-style-type: none"> <li>24. Analysis of human resources and needs of SMEs and major enterprises, by number and type of skilled workforce</li> <li>25. Analysis of existing education and training programs</li> <li>26. Development of new training programs and change/adjustment to existing SME needs</li> <li>27. Development of financial scheme—subsidies for new job creation</li> <li>28. Entrepreneurship training for youth</li> <li>29. Support employment of young graduates</li> <li>30. Support to development of additional activities in rural areas</li> <li>31. Support networking and entrepreneurship initiatives for women</li> <li>32. Support employment of disabled persons and people with limited ability to work</li> </ol>
	<p>V. Human resource development for economic growth and restructuring</p> <ol style="list-style-type: none"> <li>1. Educational system for entrepreneurs</li> <li>2. Educational system for SME workers</li> <li>3. Educational system for the rest of the population</li> </ol>	<ol style="list-style-type: none"> <li>33. Development of special education programs for entrepreneurs and workers from various sectors</li> <li>34. Development of general education program for start-up entrepreneurs and students</li> <li>35. Development of general continuing educational programs</li> <li>36. Development of financial scheme to co-finance training of target groups</li> </ol>

## Prijedor

Essence of Vision	Strategic Goals and Development Objectives	Projects
<i>In five years Prijedor municipality will be a source of economic development and a strong entrepreneurship center with a network of small and medium-sized enterprises and a dynamic and versatile economy</i>	I. Creating a business-friendly environment 1. Increasing entrepreneurs' satisfaction with the performance of the municipality 2. Active work of the Stakeholders Forum (development coalitions) 3. Establishment public-private partnership	1. Foundation of the Stakeholder Forum and other development coalitions 2. Completion of the joint overall Prijedor Development Strategy 3. Staff training in the municipality and institutions for support to SMEs for better performance and barrier removal 4. Foundation of one-stop-shops in the municipality 5. Creation of municipal non-financial forms of support to entrepreneurship development 6. Promotion of entrepreneurship and opportunities it offers 7. Promotion of entrepreneurship and successful entrepreneurs 8. Promotion of joint projects and cooperation 9. Co-financing of promotion materials, business meetings, and business networking
	II. Creation of physical (hard) and business (soft) infrastructure 1. Development of necessary physical infrastructure 2. Creation of business infrastructure for SME development	10. Foundation of the Prijedor Development Agency 11. Foundation of the Financial Fund (micro-credit schemes, guarantee schemes, subsidies) 12. Foundation of one-stop-shop for businesses 13. Creation of entrepreneurship incubator 14. Creation of business zones with improved utilities and infrastructure 15. Creation of Rural Area Development Center

Essence of Vision	Strategic Goals and Development Objectives	Projects
<p><i>In five years Prijedor municipality will be a source of economic development and a strong entrepreneurship center with a network of small and medium-sized enterprises and a dynamic and versatile economy</i></p>	<p>III. Strengthening of SME sector</p> <ol style="list-style-type: none"> <li>1. Increase number of SMEs</li> <li>2. Encouragement to growth of dynamic SMEs</li> <li>3. Opening SMEs toward broader BH markets and markets in neighboring countries</li> </ol>	<ol style="list-style-type: none"> <li>16. Simplification of registration procedures for new companies</li> <li>17. Introduction of voucher and other schemes of support to dynamical SMEs (consulting, preparation of business plans for banks, consulting for internationalization of business)</li> <li>18. Projects supporting quality development and introduction of ISO and CE standards in SMEs</li> <li>19. Projects to group enterprises into networks and clusters</li> <li>20. Organization of a number of meetings with SMEs from neighboring countries</li> <li>21. Support towards internationalization (organizational and financial) of SMEs for participation in fairs, expositions and conferences</li> </ol>
	<p>IV. Creation of productive jobs a with variety of activities</p> <ol style="list-style-type: none"> <li>1. Increase of job creation in SMEs</li> <li>2. Increase share of new industries in GDP</li> <li>3. Increase of actual wages and salaries</li> </ol>	<ol style="list-style-type: none"> <li>22. Analysis of human resources and needs of SMEs and major enterprises, by numbers and types of skilled workforce</li> <li>23. Analysis of existing education and training programs</li> <li>24. Development of new training programs and change/adjustment to existing SME needs</li> <li>25. Development of financial scheme—subsidies for new job creation</li> <li>26. Support employment of young graduates</li> <li>27. Support to development of supplementary industries in rural areas</li> <li>28. Support networking and entrepreneurship initiatives for women</li> <li>29. Support employment of disabled persons and people with limited ability to work</li> </ol>
	<p>V. Human resources development for economic growth and restructuring</p> <ol style="list-style-type: none"> <li>1. Educational system for entrepreneurs</li> <li>2. Educational system for SME workers</li> <li>3. Educational system for other population groups</li> </ol>	<ol style="list-style-type: none"> <li>30. Development of special education programs for entrepreneurs and workers from various sectors</li> <li>31. Development of general education program for start-up entrepreneurs and students</li> <li>32. Develop vocational training programs for adults</li> </ol>

## Brčko

Essence of Vision	Strategic Goals and Development Objectives	Projects
<i>Development of Brčko as a multifunctional town integrated into the international and national economies, which provides favorable conditions for living and business activities</i>	<b>I. Adjustable Economic Structure</b> 1. Acceleration of the transition process in coordination with central institutions 2. Development of small and medium-size enterprises 3. Job creation and self-employment 4. Creation of an environment attractive for direct foreign investments and establishment of qualitative service trades 5. Establishment of a strong export-oriented agriculture and food industry	1. Creation of a business-friendly environment 2. Entrepreneurship Development Center 3. Business registration one-stop-shop 4. BD Info Center 5. Privatization of enterprises 6. Establishing credit lines for business support 7. Business incubator 8. Promotion of Brčko as a place for investment and business 9. Guaranty Fund 10. Building of strong service and banking sector 11. Industrial zones 12. Building new infrastructure for the Arizona market 13. Incentives for employment legalization 14. Self-employment incentives fund 15. Agriculture and agri-business sector improvement 16. Agriculture credit fund
	<b>II. Developed Human Resources and Labor Market</b> 1. Development of business culture, strengthening of management skills and entrepreneurship 2. Introducing IT in the community 3. Permanent education 4. Harmonization of supply and demand within the employment market 5. Creation of an integrated system of social care	17. Strengthen management skills of youth 18. Creation of preconditions for introducing IT in the community 19. Matching labor offer to labor demand 20. Modernization of the education system 21. Vocational education and training 22. Job Mediation Center 23. Establishing center for industrial technologies and innovations
	<b>III. Improved spatial planning of the town and a pleasant living environment</b> <b>IV. A town with developed institutions</b> <b>V. Development harmonized with the region</b>	

# ANNEX 9.

## Progress of Selected Projects

Cases	Progress status
Prijedor Business Zone	<p><b>Project is substantially late. Real outputs are still missing.</b></p> <p>The PREDA manager spent almost a year convincing the management of CELPAK (a large industrial complex controlled by the entity government, not privatized) to develop a business zone in the industrial complex (180,000 square meters with all necessary traffic, communal, and industrial infrastructure). At the end of 2004, CELPAK started the bankruptcy process and completed it in November 2005. Finally, at the end of 2005 all necessary documentation related to zoning and resolving property issues was completed, with technical assistance from PREDA. The business zone should be a part of the new CELPAK company. Estimations and expectations regarding potential job openings are high, coming close to 1,000. Even some foreign investors (from Switzerland and Italy) have expressed strong interest in starting business operations there. Official opening of the zone was scheduled for January 2005, but it was cancelled at the last moment because of some problems with the electro-distribution public enterprise.</p>
Zenica Business Zone	<p><b>Started even before the strategy was adopted. Late in achieving expected results. By the end of 2005 only five locations (all with some old buildings) were sold.</b></p> <p>Some two years before the strategy was adopted, municipal authorities took over control and ownership of a large industrial complex as compensation for outstanding claims. The location was very close to the center, with excellent road and railway connections and many old industrial buildings. A pre-feasibility study was developed by relevant institutes. The municipality created a new company (PZZ1) to manage the project, but assigned key staff from the Department of the Economy to lead it. A very detailed project plan was developed. It took some time to prepare a zoning plan and resolve property issues. Other levels of authorities (cantonal and federal) facilitated the process. Afterwards, there were more than 330,000 square meters of industrial land available, with 67 locations (19 of them with some old empty buildings) and a range of incentives for a production branch.</p> <p>Almost a year was lost because of local elections in October 2004. The new mayor returned management of the business zone from PZZ1 to the Department of the Economy, but kept the same key staff.</p> <p>Additionally, the former owner of the industrial complex was very slow in withdrawing equipment, staff, etc.</p>

Cases	Progress status
Brčko Arizona market Zone	<p>First mega project in Brčko. Started even before the strategy was adopted. Impressive outputs by the end of 2005: a total investment of BAM 150 million; 20 new large buildings (more than 1,000 business spaces or premises) with modern infrastructure built; new parking with 2,500 places, and impressive outcomes: more than BAM 34 million collected for the BD Budget (before the project started realized budget income from the Arizona market was BAM 365,000); about 4,000 jobs; level of grey and black economy was significantly reduced; prostitution and trafficking eliminated, etc.</p> <p>The project was implemented applying a PPP model and the BOT (Build, Operate and Transfer) method. Contracted with a private developer—Italproject—as a first joint venture company; concession period is twenty years. Building phase should be completed in 2007 with three times more business spaces or premises and jobs than now.</p>
Prijedor Business Incubator	<p><b>Project is substantially late. Real outputs are still missing.</b></p> <p>At the time when the project should have started the municipality had no control over CELPAK (a large industrial complex controlled by the entity government, which entered the bankruptcy process with many available but unused business premises), where placement of the incubator was initially planned. Afterwards, in April 2004, PREDA developed a project document to create the incubator in Ljubijja (a large mining company located twenty kilometers out of the city, controlled by the entity government) but after privatization of the company by strategic investment this idea was abandoned. Current efforts are focused on installing the incubator in a former army barracks (recently handed over to the municipality). Additional funding is provided by an Italian project. There is a very optimistic estimate by the PREDA manager that the incubator will be ready for full operation in June 2006.</p>
Zenica Business Incubator	<p><b>Achieved results are substantially lower than expected (instead of having at least ten new businesses by the end of the first year, there are only four contracts with potential users of the incubator at the end of the second year of implementation).</b></p> <p>Ongoing activities are focused on transfer of know-how regarding management of the business incubator to ZEDA from an Italian project. At the same time ZEDA is taking over management from the Department of the Economy.</p>
Brčko Business Incubator	<p><b>Project is substantially late. Real outputs are still missing.</b></p> <p>There was BAM 800,000 in the BD Budget in 2003 allocated for the incubator. Also, there were some appropriate empty industrial buildings, controlled by the BD government, but with serious property issues demanding substantial time and efforts to be resolved. After that, the industrial enterprises were privatized and new owners have had no interest in running a business incubator.</p> <p>The second opportunity came in March 2005 when the BD government took over control of the former SFOR barracks and started preparation of the incubator there. It took some time to prepare and adopt new laws regarding the change of land use (previous land use was defined as agricultural) and to alter it accordingly. The head of the Department of Economy expects that the incubator will be ready to start operation in June 2006.</p>

## ANNEX 10.

## Status of Potential Factors of Success or Failure

Factors		Prijedor Business Zone	Zenica Business Zone	Brčko Arizona Market Zone
Preparation	Project action plan	According to the WB standard	Very detailed	Very detailed
	Monitoring and evaluation system	No. Expected results defined very generally, without specification.	Not explicitly developed. Could be drawn from expected results, which are specified but not time-bound.	Not explicitly developed. Could be drawn out from expected results, which are specified but not time-bound.
Pushing/ Pulling	Sense of urgency	Medium to high (high unemployment rate).	Medium to high (high unemployment rate).	Very high (grey economy, criminality).
	Political support	Strong enough, but varying around the time of local elections.	Strong enough, but varying around the time of local elections.	Very strong.
	Stakeholders' Forum involvement	No evidence of meeting and discussion.	No evidence of meeting and discussion.	No evidence of meeting and discussion.
Resources	Human resources	Know-How not completely available, but not critical; project management skills not available at all.	Know-how available; project management skills weak (should be developed or hired or outsourced).	Know-how not completely available, but not critical; project management skills weak (should be developed or hired or outsourced).
	Financing	Initial internal finance (municipal budget).	Initial internal (municipal budget) and external (cantonal and federal budget).	Initial internal finance (municipal budget).
	Other key resources (land, buildings, etc.)	Available (CELPAC industrial complex) but not controlled by the local level.	Available (RMK ZELJEZARA industrial complex) but not completely controlled by the local level.	Available (ARIZONA market), completely controlled by the local level.

Factors	Prijedor Business Zone	Zenica Business Zone	Brčko Arizona Market Zone
Key method of implementation/ principal developer	First idea (PREDA management of the project and BZ) was abandoned because municipal authorities have not had any control or ownership over the industrial complex. Later, PREDA provided TA to the new CELPAK to start and manage BZ.	Creation of specific company completely controlled by the municipal government to manage the zone. After local elections (Oct. 2004) the new mayor returned management of the business zone from PZZ1 to the Department of the Economy, but kept the same key staff.	PPP concept: BOT method, contracted with a private developer (ItalProject, joint venture company).

Factors	Prijedor Business Incubator	Zenica Business Incubator	Brčko Business Incubator
Preparation	Project action plan	According to WB standards	Detailed
	Monitoring and evaluation system	Not explicitly developed. Could be drawn from expected results, which are specified and time-bound.	Very general. Even expected results were neither specified nor time-bound.
	Sense of urgency	Medium (high unemployment rate)	Medium (high unemployment rate)
Pushing/ Pulling	Political support	Strong enough, but varying around the time of local elections	Strong enough
	Stakeholders' Forum involvement	No evidence of meeting and discussion	No evidence of meeting and discussion



Factors		Prijedor Business Incubator	Zenica Business Incubator	Brčko Business Incubator
Resources	Human resources	Know-how not available; project management skills not available at all.	Know-how not available; project management skills weak (should be improved).	Know-how not completely available, but not critical; project management skills weak (should be improved).
	Financing	Initial internal (municipal budget) finance.	Initial internal (municipal budget) and external (EU QIF, Cantonal and Federal Budget) finance.	Internal finance (municipal budget) sufficient.
	Other key resources (land, buildings, etc.)	At the beginning (2004), available (CELPAC industrial complex, LJUBIJA MINING premises), but not controlled by the local level. Later (end of 2005) municipality took over control of some appropriate premises (former army barracks).	Available (RMK ZELJEZARA industrial complex) but not completely controlled by the local level.	Available, completely controlled by the local level, but with some obstacles related to property issues. Later (March 2005) the BD government took control of former SFOR barracks and started preparations there.
Key method of implementation/ principal developer		First idea (PREDA management of the project and BZ) was abandoned because Municipal Authorities have not had any control / ownership over the industrial complexes. Later (end of 2005) Municipal Management returned to the original idea.	Managed by the Department of the Economy. Being transferred to ZEDA (Zenica Development Agency).	First idea was an incubator managed by BDDA. Current idea is that the incubator is to be managed by the BD Department of the Economy.

## NOTES

- <sup>1</sup> This paper was prepared under the aegis of a 2005–2006 LGI policy fellowship.
- <sup>2</sup> The author is the director of the EDA Development Agency, Banja Luka, <http://www.edabl.org>, e-mail: [zmiovcic@edabl.org](mailto:zmiovcic@edabl.org).
- <sup>3</sup> Characterized by: the five-stage strategic planning process; participatory planning (partnership between public, private, and community sectors); focus on issues or problems to be solved instead of traditional sectors; clear priorities, detailed implementation plans, as well as clear sets of indicators to allow monitoring of implementation (Swianiewicz 2004).
- <sup>4</sup> Beyond the numbers cited, this conclusion is based on the author's experience in fieldwork with local governments and development teams.
- <sup>5</sup> By second-tier cities we mean "spatially distinct areas of economic activity where a specialized set of trade-oriented industries takes root and flourishes, establishing employment and population growth trajectories that are the envy of many other places" (Markusen, Lee, and DiGiovanna 1999). In the case of BH this definition is applicable to regional or sub-regional centers other than Sarajevo.
- <sup>6</sup> See Annex 1.
- <sup>7</sup> Qualitative analysis is shorthand for "analysis of the (largely qualitative) data obtained when using flexible design" (Robson 2002).
- <sup>8</sup> "Decentralization is usually defined as the process of creation or strengthening (financially and legally) of subnational units of government, transfer of responsibilities for planning and management, and the raising and allocation of resources from central government and its agencies to lower tiers of government" (Čapkova 2005a).
- <sup>9</sup> For an administrative chart of BH, see Annex 1.
- <sup>10</sup> Brčko is formally defined as a district and unit of local government. Actually, it is more likely to become the third entity.
- <sup>11</sup> The area of local government is regulated in detail by relevant laws: Law on Local Government in RS (*Official Gazette RS*, No. 101/04), Law on Basic Local Government in FBH (*Official Gazette FBH*, No. 6/95), and special laws in cantons.
- <sup>12</sup> The same competencies and the same legal status are assigned to municipalities with a population of less than one thousand (there are five such municipalities in BH) and municipalities with a population of more than 100,000 (six municipalities in BH).

- <sup>13</sup> Council of Ministers BH, Ministry of Foreign Trade and Economic Relations—Office of the BH Coordinator for PRSP. *BH Medium Term Development Strategy—PRSP*. Sarajevo: March 2004.
- <sup>14</sup> Five Regional Economic Development Strategies (available at <http://www.eured-bih.org>) created as key part of EU Regional Development Project (2003–2005), financed by the European Union.
- <sup>15</sup> The Brčko District was established as an autonomous unit of BH in March 2000, as a result of the Brčko Arbitration Decision of 1999.
- <sup>16</sup> BH Indirect Taxation Authority (ITA) is functional as of January 1, 2005, while from January 1, 2006, ITA collects and allocates VAT.
- <sup>17</sup> Summarized from USAID (2003).
- <sup>18</sup> SMART = Specific, Measurable, Attainable, Realistic, and Time-bound.
- <sup>19</sup> According to the implementation plan, ZEDA was responsible for as many as 25 projects with many of them starting immediately after adoption of the strategy.
- <sup>20</sup> These risks were not even mentioned in the action plans of Zenica and Prijedor.
- <sup>21</sup> In this case we have analyzed only the first two goals, focused on LED. The BD Development Strategy is a more general development strategy.
- <sup>22</sup> Local members of LED teams were much more practical and pragmatic than consultants (“We adopted an extended list of projects even though we knew exactly what our real priorities were,” as one key local informant said during the interview).
- <sup>23</sup> Both Zenica and Prijedor were areas of heavy industry with large industrial complexes and dreams of large employment figures.
- <sup>24</sup> The most obvious examples of such practices are the annual reports related to strategy implementation in Zenica and Prijedor. These documents describe activities without any indicators or performance description.
- <sup>25</sup> The Northeast BH Development Strategy was created in 2004.
- <sup>26</sup> The Northwest BH Development Strategy was created in 2004.
- <sup>27</sup> The Central BH Development Strategy was created in 2004.
- <sup>28</sup> This allows proper decision-making regarding programs and projects to be implemented and builds local development capacity.
- <sup>29</sup> Local control over such resources should be key to prioritization.
- <sup>30</sup> These findings are applicable to projects to develop lacking physical infrastructure.
- <sup>31</sup> In the FBH even that task stays usually at the cantonal level and cantons do not show any interests nor competency to fulfill it.

- <sup>32</sup> As demonstrated before, LEDAs have been overloaded with projects.
- <sup>33</sup> **Key changes in 2005 and 2006:** As of 2005, revenue from excise and customs are a joint revenue of the state and entities as well as of Brčko District. As of 2006 sales tax is transformed into VAT (at a uniform rate of 17 percent) regulated and collected at the state level (with the excise tax and customs as the other two components of indirect taxes). A key intention of the new redistribution system regarding municipalities was to provide them with at least the same revenue as they had from the previous sales tax. The situation related to direct taxes remains the same.
- <sup>34</sup> Initial data for this part was from an interview with the team leader of EU RED BD Project. Data was checked and completed by interviews with key local informants (first director of the BD Development Agency and current chief of the Department of the Economy) as well as by review of documentation available on the site.
- <sup>35</sup> Initial data for this part comes from an interview with a team leader of the strategic planning process (SEED Business Development Officer). Data was checked and completed by interviews with key local informants (director of the Zenica Economic Development Agency and a key representative of the Department of the Economy, who was very involved during the planning process), as well as by review of documentation available on the site.
- <sup>36</sup> The same approach was used as in Zenica.
- <sup>37</sup> With the following key characteristics: no participatory process of strategic planning (all work was usually assigned to a planning expert from the municipal administration, or, if the municipal budget could afford it, to outside experts from economic institutes, faculties, etc.); analyses and strategic recommendations were organized around economic sectors (not an issue-driven approach). The sections related to implementation (what to do and how to do it) were the weakest parts of the plan.
- <sup>38</sup> According to the implementation plan, ZEDA was responsible for as many as 25 projects (!) with many of them starting immediately after adoption of the strategy (!).
- <sup>39</sup> This figure describes the period when BDDA worked at full capacity and with maximum focus on strategy implementation (2002–2003). Currently, BDDA has only three full-time employees.
- <sup>40</sup> During 2004, the PREDA team participated in more than ten seminars and workshops relevant to strategy implementation.
- <sup>41</sup> Taken from the strategy adopted by the Municipal Assembly. Should not be considered realistic because the strategy was adopted with long delay (in January 2004). Revised timeframe, if any, is emphasized in italics.
- <sup>42</sup> Taken from the strategy adopted by the Municipal Assembly. Revision, if any, is emphasized in italics.

- <sup>43</sup> Data collected using two methods: review of available documentation (including reports) and site visits and interviews with key informants (from PREDA and the Department for Economy) familiar with the implementation progress.
- <sup>44</sup> During 2004, the PREDA team participated in more than ten seminars and workshops relevant to strategy implementation.
- <sup>45</sup> Taken from the strategy adopted by the Municipal Assembly.
- <sup>46</sup> Taken from the strategy adopted by the Municipal Assembly.
- <sup>47</sup> Data collected using two methods: review of available documentation (including reports) and site visits and interviews with key informants (from ZEDA and the Department for Economy) familiar with implementation progress.
- <sup>48</sup> Taken from the strategy adopted by BD Parliament.
- <sup>49</sup> Taken from the strategy adopted by BD Parliament.
- <sup>50</sup> Data collected using two methods: review of available documentation (including reports) and site visits and interviews with key informants (former director of BDDA and current chief of the Department for Economy) familiar with implementation progress.

# Improving Implementation of the Local Economic Development Strategic Plans in Macedonia

*Gligor Stojkov*

## ABSTRACT

The ultimate thrust of the decentralization process in Macedonia came with the formal introduction of fiscal decentralization in 2005. The revision of legislation between 2002 and 2004 assigned broad responsibilities to municipalities, many (including LED) for the first time. In response to subsequent efforts by municipalities to carry out these duties with limited competencies, international donors provided increased support in capacity building, financial management, infrastructure investments, and management of local economic development (LED).

Several years have passed since the initial LED strategic plans were developed and implemented, but research about the results has been rather limited, providing no information about key factors facilitating effective implementation. Part of a regional study, this paper seeks to fill that gap by exploring the issue of LED in selected Macedonian municipalities, analyzing the management (planning, implementation, monitoring, and evaluation) of LED activities, and assessing the effects of the implementation of LED strategic plans. The exercise was performed through independent evaluation of implemented activities, review of available documentation, and analysis of the opinions of municipal stakeholders related to the LED process obtained in personal interviews.

Our research clearly identifies key factors that could facilitate effective implementation of LED strategic plans in Macedonia. These factors include: planning based on knowledge and experience, private sector participation, clear and applicable financing solutions, local leadership and continuity, clear donor priorities, and effective implementation and monitoring provisions. Finally, the paper presents recommendations that could improve municipal performance in planning and implementation of LED strategic plans.

## LIST OF ACRONYMS

CBI	Confidence-building initiative
CSHI	Community self-help initiative
EAR	European Agency for Reconstruction
EBRD	European Bank for Reconstruction and Development
ESA	Enterprise Support Agency—Tetovo
EU	European Union
EUR	Euro
GDP	Gross domestic product
GTZ	German Technical Assistance, <i>Gesellschaft für Technische Zusammenarbeit</i>
IFC	International Finance Corporation
IOM	International Organization of Migration
LD	Local development
LED	Local economic development
LGRP	Local government reform project
LSG	Local self-government
LGI	Local Government Initiative
MKD	Macedonian denar
NUTS	Nomenclature of Territorial Units for Statistics
OSI	Open Society Foundation
PPP	Private-public partnership
PRO	Public revenue office
SME	Small- and medium-size enterprise
SWOT	Strengths Weaknesses Opportunities Threats Analysis
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USD	United States dollar
USTDA	United States Trade and Development Agency
VAT	Value added tax
WB	World Bank
ZELS	Association of Macedonian Municipalities

## 1. INTRODUCTION

The decentralization<sup>1</sup> and transfer of responsibilities from central to local governments has been on the public agenda in Macedonia since independence. After two waves of reform to the territorial organization of the country and changes in the number and size of municipalities, the process was completed with the revision of legislation and formal introduction of fiscal decentralization. The new legislation assigned enhanced competencies to the municipalities in different areas, one of which was the area of local economic development.<sup>2</sup>

Several years after the first municipal LED activities, more than 30 municipalities have by now managed to assess their priorities, develop LED strategic plans, and start implementation. That makes this the first moment when it is possible to conduct an initial analysis of the difficulties in the planning process that restrain the thriving execution of LED plans and to identify factors that positively influence successful implementation.

In order to present a comprehensive view of the situation with respect to LED, and to build on support activities already implemented in Macedonia, this paper focused on three second-tier cities (regional or sub-regional centers other than the capital)—namely Bitola, Kočani, and Tetovo. Different instruments<sup>3</sup> were used to assess the effects of the implementation of LED plans. Independent evaluation of implemented activities, based on *field visits* and *desk research* of available documentation, was supplemented by *personal interviews* with municipal stakeholders to assess their views on the LED process.

The result is a policy- and impact-oriented study, clearly identifying key factors that could facilitate effective implementation of LED strategic plans in Macedonia. Part of a wider regional study, this paper adds to the literature local authorities can use to evaluate their activities, improve the post-planning process, and improve implementation of LED activities. Taking into account the specifics of implementation conditions in each municipality, the findings are presented in terms of planning and the implementation stages, and include recommendation for all stakeholders to improve municipal performance in planning and implementing of LED strategies.

The materials used for the research, analysis of economic indicators, and the tables providing overviews of municipal conditions are presented in the annexes.



## 2. THE NATIONAL CONTEXT FOR LOCAL ECONOMIC DEVELOPMENT IN MACEDONIA

### 2.1 Historical Overview

With independence from the Yugoslav Federation in 1991, the Republic of Macedonia inherited the Yugoslav system of highly decentralized municipal government. Municipalities had broad responsibilities and powers, successfully managing significant parts of the local life through local administrations. However, as a consequence of the conflicts in the other Yugoslav republics and the perceived danger of a decentralized public administration system, a completely centralized administration system was implemented immediately after independence.

Municipalities were deprived of their powers and had no real responsibilities. Even more importantly, they had no genuine income to deal with the local issues within their limited scope of responsibility and were completely dependent on transfers from the central government. Local issues were regulated and managed through local branches of relevant ministries, which took over a significant number of municipal employees. These branches were located in the territory of the “old” 34 municipalities (as defined by earlier territorial administrative divisions). This limited physical access of the “new” municipalities to their services and limited general access due to subordination to a center that did not understand local matters.

### 2.2 The Current Environment and Contemporary Issues

The current legislative framework for the local government was put in place in the period between 2002 and 2004 and is presented in more detail in Annex 2. A revised Law on Local Self-Government was enacted in 2002, reinforcing the powers of elected local officials and substantially enlarging their competencies in conformity with the Constitution and the European Charter on Local Self-Government. These enhanced competencies were implemented on July 1, 2005—officially initiating fiscal decentralization—and local administrations needed significant local knowledge and experience in dealing with these issues.

Local economic development was one of the first responsibilities transferred to the municipal level by the revised law. Becoming responsible for local economic development—planning, setting priorities, and leading local economic politics—municipalities required assistance in its application. Due to the long period of centralization, local human resources were depleted and/or displaced and municipalities found it increasingly

difficult to address their functions in terms of proper staff. In some areas the municipalities were able to build upon the expertise and experience of their own officers and/or the employees in the former state institutions, but in the new, previously non-existent areas of responsibility, such as local management of public services or local economic development, this was not the case. Even more, the coordination of all these different responsibilities was a major task for local governments and required specific knowledge, expertise, and experience.

As a result of the different manifestation of transitional, social, and economic problems in each municipality, the central government had limited ability to positively influence local economic development. The municipalities were on their own in this context, but at the same time had no experience in planning and management of LED. They had to turn to international donors for assistance in capacity building, to obtain the expertise that was required in this field. Receiving this support, more than 20 (predominantly urban) municipalities approached the issue and developed LED strategic plans during the first wave (2002–2003). Other municipalities were soon to follow suit after application of the new territorial organization and clarification of ambiguities surrounding further existence of a significant number of small, predominantly rural municipalities.

In the wake of the transfer of powers and responsibilities from central to local governments, several issues surrounding the process became noticeable. In response to decentralization, municipalities started to develop new organizational structures and build administrations with new municipal officers possessing adequate knowledge and skills. At the same time, ministries closed their local branches and demanded a transfer of employees to municipalities. The quantity and quality of available officers were insufficient to municipal needs, and municipalities were reluctant to accept them.

In addition, the responsibilities transferred to municipalities were previously discharged centrally with more financial resources than the amounts available to municipalities immediately after fiscal decentralization (either as genuine income or as a transfer/subsidy from the responsible ministries). Municipalities are finding themselves forced to execute more duties and responsibilities with less finances.

Finally, land and its proper utilization in attracting new investments locally has been a powerful tool in local development. But as a legacy of the previous system, the state is the exclusive landowner—its use is controlled by the central government. In order to use it for local development, several pilot municipalities are scheduled to receive transferred ownership in 2007, opening the way for a complete transfer in the next period.

## 2.3 The Administrative System and Regionalization

Public administration in Macedonia is a two-tier system comprising the central government and units of local self-government or municipalities. Regions do not exist in administrative terms, but have been a part of recent legislative efforts in planning. The eight statistical regions used by the national office of statistics according to the European NUTS<sup>4</sup> nomenclature, have also been assigned the role of regional planning in the new Draft Law on Regional Development. Their responsibilities include: (i) planning and implementation of a consistent regional development policy, (ii) harmonizing domestic regional policy with EU regional policy, and (iii) strengthening the administrative/institutional capacities on the national and local level towards effective economic and social cohesion. These responsibilities have been distributed equally among the units of local government and the central government. Emphasizing the partnership between the state and units of local government in regional development, the draft law sets up eight councils of regional development. The main participants in these councils are the municipalities and local stakeholders—essentially the same parties taking over responsibilities for local economic development.

*Table 1.*  
Number of Municipalities

	1991	1996	2004
Number of municipalities	34	123	84

## 3. COMPARATIVE OVERVIEW: BITOLA, KOČANI, TETOVO

### 3.1 Elaboration of LED Strategy

Bitola was the first Macedonian municipality to formally initiate LED activities by applying to LGI–OSI and receiving a grant for the development of an LED strategic plan. The commencement of LED activities in Kočani and Tetovo and their continuation in Bitola (revision of the existing strategy) were connected to the enactment of the revised Law on LSG and the support they received for development of LED strategies through the USAID-funded Local Government Reform Project (LGRP). A chronological overview of the LED strategy development process in these municipalities is presented in Table 1, whereas a comparative overview of the planning framework (including additional comments on the planning process, main municipal actors, foreseen funding arrangements, and implementation provisions) is given in Annex 3.

*Table 2.*  
A Chronological Overview of the LED Strategy Development Process  
in Selected Municipalities

	<b>Bitola</b>	<b>Kočani</b>	<b>Tetovo</b>
LED strategy	2000	2002	2002
Municipal profile	2002	2002	2002
LED strategy revision	2002	planned for 2006	/
Supporting institution	LGI–OSI in 2000 LGRP (USAID) in 2002	LGRP (USAID)	LGRP (USAID)
Adopted by the Municipal Council	2000 and 2003	2002	2003

Although officially called LED action plans,<sup>5</sup> the documents were missing some information required in such documents. Mainly, the projects had defined timeframes for implementation but no starting dates. The financing of individual projects was not secured in municipal budgets and implementation was dependent on available financing from international donors. Moreover, in spite of the prioritization of projects, individual project implementation plans were not developed for priority projects. Finally, monitoring and evaluation were only mentioned and not truly foreseen as activities in the LED action plans—they were left to donors. The respective LED coordinators were responsible for implementation, in spite of provisions for the set-up and functioning of LED offices within municipal administrations. Implementation provisions were present only in Kočani's strategy, to be presented in more detail presented below.

One of the largest issues during the planning phase was the limited availability of statistical data on the municipal level. In some cases it was replaced during planning with whatever quantitative data was both available and reliable. A formal assessment of municipal capacity for development of LED strategy was not conducted, whereas the establishment of a Municipal Economic Council (responsible for implementation, monitoring, and evaluation of the LED Action Plan) was planned to immediately follow approval—unfortunately this did not happen.

With the exception of Kočani, the municipalities have not identified indicators for monitoring the implementation of the LED strategy and analysis of its impact. Furthermore, the indicators in Kočani's strategy were not quantified, so it was impossible to retrieve information on the success of the strategy or any of its projects. It was also impossible to receive quantified municipal opinions on results, since the municipality has not explored the economic impact of the projects implemented.

## 3.2 Implementation of the Strategy<sup>6</sup>

The implementation of the strategies for local economic development and the impact they had in the specific areas was assessed through an overview of the implementation process and implemented projects, as well as on the basis of economic indicators. Information obtained through field visits, personal interviews with focus groups (these groups included both individuals that were involved only in the planning stages, as well as individuals that were involved both in planning and implementation), and desk research of the available documentation, led to individual conclusions that are presented in detail in Annexes 5–7.

The overall number of implemented projects from LED action plans between 2002 and 2005 in all three municipalities is not impressive (with slightly better results in Kočani). Some—but not many—projects for municipal assistance in the revival of the local economy were implemented as planned, presented in Table 3.

*Table 3.*  
Number of Implemented Projects from LED Strategic Plans<sup>7</sup>

	Bitola	Kočani	Tetovo
Number of projects in the LED strategy	15	68	28
Number of projects initiated	5	39	5
Number off projects completed	2	16	2
Number of projects implemented that were not included in the LED Strategy	>30	>20	>40

However, these cities, as second-tier cities and regional centers, have received increased attention from the international donor community. Therefore, the total number of projects for local development implemented by the municipality and supported by international donors in the same time period is significantly higher (more than 30 in Bitola, more than 20 in Kočani, and more than 40 in Tetovo). A number of these projects have a lot in common with the projects cited in the LED action plans, but are essentially different and in cover a much wider context than local economic development.

## Local Economies

The movement in indicators relating to number of businesses, unemployment (long- and short-term), and GDP have been positive on the national level in the 2002–2005 period,

and were mirrored by developments in the municipalities researched. Due to the importance of the three municipalities as second-tier cities and the consequent concentration of businesses in their territories, the numbers have been improving at a slightly higher pace than national averages. These numbers (as shown in Table 4), after three years implementing LED strategies in the three municipalities, indicate accelerated economic development.

*Table 4.*  
Changes in Selected Indicators (2002–2005)

	<b>Bitola</b>	<b>Kočani</b>	<b>Tetovo</b>	<b>Macedonia</b>
Number of business entities	+27%	+14%	+55%	<b>+18.4%</b>
Number of active companies per 1,000 inhabitants	28.7	28	41.75	<b>25.7</b>
Unemployed	–11%	–11%	–11.3%	<b>–3.8%</b>
Younger unemployed (ages 15–29)	–19%	–20%	–12%	<b>–16.6%</b>
Long-term unemployed <sup>8</sup> (unemployed longer than two years)	–8%	+6%	+8%	<b>–1.5%</b>

It would be inappropriate to directly attribute these numbers only to activities related to local (economic) development, but the importance of LED should not be overlooked. This is especially true in terms of falling rates of young unemployed, as this indicates a more active involvement of younger participants in the labor market.

### *Bitola*<sup>9</sup>

The first municipality in Macedonia to have developed an LED strategic plan, Bitola had limited experience both in planning and implementation. At the same time, municipalities in Macedonia had neither their own sources of financing in 2000 (financing was through transfer from the central government), nor had they other responsibilities for implementation. The LED action plan did not include provisions for implementation, monitoring, or evaluation, and the LED office imagined within the municipal administration was not set up properly or in a timely manner. Although the coordinator of the working group continued to serve as an LED coordinator after adoption of the LED strategy, local economic development was not the main focus of professional or municipal activity. This lack of focus was emphasized by the very limited public awareness that an LED action plan existed—there was no general or professional involvement of the public in the process.

Moreover, immediately after the revision of the LED action plan in 2002 and the development of the profile by the second LED coordinator, she found another position

outside the municipality. Consequently, the municipality decided to hand over responsibility for LED to the municipal coordinator for international projects, thus appointing a third LED coordinator in a matter of three years and rendering implementation of LED activities completely reliant on outside financing.

### *Implementation*

Following the patterns of implementation over the last four years (presented in detail in Annex 5), it appears that the LED plan was overshadowed by local political priorities and the priorities of international donors. In this context, local leadership would be key, and this ingredient is difficult to find in Bitola. The high rate of turnover in the coordinating role also resulted in confusion and lack of focus during implementation.

Implementation was further hindered by inclusion of tasks and projects in the LED action plan that were outside current municipal responsibilities, overstretched management capacity, and relied on unavailable financing (construction of roads outside the municipality, projects dealing with railway traffic that is the responsibility of the national railway operator, construction of a regional airport, etc.). The Achilles heel of the LED action plan in Bitola is the absence of the private sector in both development and implementation. The inclusion of members of either municipal bodies, agencies, or communal enterprises, along with representatives from central government institutions in the working group resulted in the absence of activities for improvement of municipal services and led to the confusion of local economic development with overall local development.

Simultaneously, due to the system at the time of the initial development of the LED action plan and the rigid understanding of LED, responsibilities for implementation were with state-controlled institutions (quasi-local institutions, in essence deconcentrated local branches of national institutions). These institutions were responsible to the national government, leaving the municipality with no influence over their efforts in implementation of LED activities. In this context it is even more important that they had neither the capacity to handle these issues, nor a proper understanding of LED. This is still the case today. After the partial transfer of responsibilities from central to local governments, some of these institutions are now managed locally and the municipality is totally responsible for their management and financing. Nevertheless, problems in implementation still exist as a result of limited local capacity and lack of sufficient funds to implement planned activities.

### *Kočani*<sup>10</sup>

The LED strategy included an implementation plan laying out budgetary and human resource as well as institutional and procedural implications. The LED team prepared applications for each project connected to certain funds. Implementation was carried out

by different implementation bodies (depending on the type of project), and monitoring was the responsibility of four “animators” (one for each goal/action plan). Every project that was approved with secured financing was coordinated by a responsible person reporting to the LED coordinator. Although project coordinators were not volunteers during implementation (unlike the LED team), they still faced problems with written reporting and coordination of activities, suggesting the need for additional capacity for LED management and project implementation.

Kočani’s LED team is an example of motivated citizens and officials who challenged themselves in creating the best possible LED strategy for their municipality. The mayor’s commitment and involvement in both development and implementation of the LED strategy (he was a member of the LED working group), the LED coordinator’s systematic approach and enthusiasm, combined with their joint vision and contribution to development of the municipality motivated all of the members of the LED team to be very proactive in their participation.

The same LED coordinator worked throughout the 2002–2005 period, providing continuity in the formulation of the LED strategy, its development process and its implementation. The good results are a direct consequence of outstanding management and continuity. However, successful implementation requires not only qualified human resources and management, but also adequate financing.

### *Implementation*

Looking at the number of projects started and finished, it can be concluded that the municipality took the right course in implementing the LED action plans. Due to a chronic lack of finances (of the EUR 23,174,000 planned for the 2003–2005 period, only EUR 2,571,100—11.5 percent—were provided), implementation did not follow the action plans closely. However, the plans offered more efficient and effective use of existing budgets within local government, private associations, and companies, and, most importantly, were used to target funds from external sources such as the national government, bilateral, and multilateral donor agencies.

At this point it is also very important to stress the transparency of the process provided to the public by the municipality. By informing the public of upcoming, ongoing, and accomplished projects, the municipality ensured public support and increased its trust in the municipal administration, especially in terms of management of public funds.

The planned organizational scheme for implementation was too complex and did not provide the LED coordinator with sufficient time for proper monitoring and evaluation. Its complexity was a consequence of the four different action plans within the LED strategy, resulting in too many responsible persons reporting to a single coordinator. Limited financial capacity also limited power to directly steer implementation. Finally, the LED team received no proper training for strategy implementation, monitoring, and evaluation.



Additionally, it can be concluded that priorities for implementation of the LED strategic plan were superseded by the priorities of international donor organizations. The projects finished within the three-year period were mostly financed by international donors. Still, it is worth mentioning that although with delays, the projects started and finished do follow the action plans. Again, the importance of local leadership was key, providing systematic management in pursuing the financial possibilities and applying them to planned activities.

It is telling that most projects where the final output is a study are completed, while the projects depending on those studies tend not to have started, pending available funds. The municipality has stated an expectation that this will improve after fiscal decentralization and other activities related to revenue.

Although implementation of the LED strategic plan in Kočani has not followed the action plan strictly, there are good chances for positive results in terms of decreasing unemployment, increasing the number of active companies, and attracting investments. As for the LED department and agencies it envisions, their combined coordination is likely to reinforce the success already achieved.

### *Tetovo*<sup>11</sup>

As was previously noted, neither implementation, nor monitoring and evaluation were considered in the strategic plan. ESA and the LED coordinator, those responsible for the strategic planning, were also responsible for implementation. However, implementation constantly faced difficulties due to the lack of an official LED office. In spite of the prioritized set-up of the LED office within the municipal administration, there were no municipal employees in the department for planning where this office was supposed to be integrated. The implementation of the strategic plan followed the priorities set by international donors and the current administration (the mayor and the municipal council), but not the ones defined in the strategic plan. No new action plan was developed to replace the one briefly outlined in the strategic plan. Implementation relied on unavailable financial resources and ultimately depended on the mayor's negotiation capabilities.

The overall impression from the implementation of projects from the LED action plan in Tetovo in the 2003–2005 period is not impressive. Few projects have been implemented, and the flimsy action plan was not followed at all—priorities were constantly reset by different levels of municipal administration.

The municipality intends to implement the rest of the planned projects through donations. The project plans are ready, but as the municipality has no funds, no progress can be made alone. This should be addressed when the LED plan is reviewed.

One of the primary obstacles has been the lack of experienced personnel. Even after three years, the LED unit is not organized in a systematic way. Rather it is controlled in an *ad hoc* manner by the municipal administration.

Another important issue surrounding implementation in Tetovo is the privatization of ESA that happened during the planning process. ESA became an independent development agency that must secure its own survival. Although the municipality is a partial owner, its rights to engage the agency for free for its own purposes were limited.

Additional limitations were due to the fact that the priorities set out by the LED plan were consistently overridden by the priorities of the international donor organizations. The municipality implemented local development projects not included in the strategic plan simply because there was financial support from donors. The impact of these projects on the economic situation was without a doubt positive, but is difficult to quantify, much less to correspond with the LED strategic plan.

Another weak point in implementation was lack of LED leadership. The LED office established in 2003 still does not function properly. Recently, since the new mayor took office, implementation has been handled through different municipal departments depending on project sector, without powerful horizontal coordination (e.g., if the project deals with water supply, it is implemented, monitored, and evaluated by the unit responsible for water supply). Each project has its own coordinator and supervisor according to the specifics of the project. This vertical approach towards the implementation enables expert involvement, but does not enable integral coordination and monitoring. On the other side, responsibility for implementation requires human resources with elevated capacity—which are not readily available in the municipal administration. This fact, along with the overriding power in the municipal administration, is disabling LED office leadership. The yet-to-be-implemented organization of the municipal administration (the dysfunctional LED office) is widely understood as the most important that the strategic plan is not followed.

Overall, there are good chances to improve indicators in unemployment, number of active companies, and attracting investments, by following the revised action plan, establishing a proper LED office right away, and making major changes to the implementation arrangements, organization, and responsibilities.

### 3.3 Assessment of Implementation on a Micro Level

A summary of individual projects and reasons for specific outcomes (both in terms of planning and implementation) are presented in the next paragraphs. The selection of projects was made with the participation of the group of local LED team members on the basis of their importance according to the information received in the municipality and their prioritization during the planning process. The projects are presented in Table 5.

*Table 5.*  
Project Implementation

Project title		Project status
<b>Bitola<sup>12</sup></b>		
1	Retention of existing jobs and creation of new jobs	completed on time
2	Tourist information center for the municipality of Bitola	ongoing
3	Improvement and expansion of local and regional transportation infrastructure	failed
<b>Kočani</b>		
1	Study for use of alternative energy	completed on time
2	Asphalting and upgrading the streets in the central town area and settlements	ongoing
3	Development of a study for restarting the paper and pulp factory	failed
<b>Tetovo</b>		
1	Improvement of road infrastructure—Illindenska Boulevard	completed
2	Central garbage disposal and recycling factory	ongoing
3	Riverside of the River Pena	failed

The planning phase of the LED action plans influenced implementation of projects both in cases of success and failure. Across the board, either planned resources do not match the type and size of the project, or required funds far exceed those available. Additionally, for all projects, outputs are not quantified, are not SMART,<sup>13</sup> and do not reflect reasonable, progressive steps toward longer-term results. The main issues during planning were:

- Local economic development was confused with overall local development.
- Projects were too complex and based on miscalculated projections of the consumption of available resources.
- Risks were too large with respect to resources outside of municipal control.
- Financial planning was based on what was possible, not what was available.

The projects in the area of transport infrastructure in Bitola are telling, with identical reasons for their outcome. All the projects go beyond the municipality in terms of geographical correspondence, legislative responsibility, and financial powers. These are all viable projects, the effects of their implementation would most certainly benefit the business community and the citizens of Bitola, and the municipality should in any case

feel responsible to initiate activities for their resolution at the national level. However, their placement in the LED action plan and the dedication of resources (at least on paper) removed the available space for other more viable projects and drew attention to the more feasible activities in the LED.

The planning process had a profound influence on the success of the implementation process in Kočani. The participation of the same individuals both in planning and implementation positively influenced implementation and prospects for future planning. In addition, successful prognoses and links between the LED strategy and donor intentions had a significant impact on the successful planning process.

The reasons for failure during the implementation process in all municipalities are concentrated in the following areas:

- limited financial resources;
- limited human resources and organizational capacity;
- limited implementation timeframes.

In Tetovo, implementation was delayed by incorrect assumptions about resources and inappropriate timeframes during the planning phase. This was especially apparent in infrastructure projects. All projects step beyond the municipality's capacity in terms of financing. The effects of their implementation would most certainly benefit the business community and the citizens of Tetovo, and the municipality would be right to feel responsible for seeking support at the national or international level.

Successful implementation in Kočani can be attributed to the fact that the municipality financed the implementation of the projects that were its responsibility. The support received from national and international institutions led to implementation success, but was only possible as a consequence of dedicated work in the preparation and financing of designs and/or other project documentation related to individual projects.

Looking at the common reasons for failure and success in Bitola and Tetovo, it is evident that planning could have been much better. Responsibilities were not assigned; there were no monitoring and evaluation procedures, and little dedication on the part of municipal authorities. Only standard projects financed by international donors were implemented properly and (almost) completely. The donor system has proved to limit projects that are outside of donor priorities both by rendering them difficult to finance and by attracting attention to other projects that can be financed under the system.

## 4. CONCLUSIONS AND POLICY IMPLICATIONS

### 4.1 The Closer We Look the Better We See

LED strategic planning is new in Macedonian municipalities. This inexperience is most apparent when municipalities opt for development projects that go beyond both their management and financing capacity. Often municipalities planned activities that were needed but could not be implemented and, at the same time, missed opportunities to implement projects that could have been implemented without large investments (utilization of forests and forest areas, locations for small craft shops along frequent routes, etc.).

Moreover, the action plans were developed in such way that they do not include all information required in such documents. Projects were assigned timeframes, but no start dates were set. Despite their prioritization, individual project implementation plans were not developed at all, not even for priority projects.

Additionally, neither implementation, nor monitoring and evaluation were regularly considered in strategic plans. Although in some cases indicators for monitoring were determined, they were not quantified and in the three years were not used. So it is generally impossible to obtain information on the successful realization of LED strategies or any projects, and it is impossible to receive quantified municipal opinion on achieved results and/or the economic impact of projects implemented. With the deprivation of real action planning, lack of real assignment of responsibilities, absence of monitoring and evaluation provisions, and no financial dedication on the behalf of the municipality, the LED action plan becomes no more than a wish list.

At the same time, with LED teams consisting almost exclusively by members of either municipal bodies, communal enterprises or representatives from central government institutions, planning tends to be one-sided. Activities to improve municipal services are excluded, and LED tends to be equated with overall local development. The voice of the private sector is essential in bringing practical economic issues in the local environment to the surface, but this is generally lacking in the planning stages (with exception of Kočani) and totally absent during implementation.

Financial planning was plagued by miscalculation and incorrect assumptions. Municipalities tended to plan for expenditures according to their wishes, no according to reality. Beyond seriously limiting possibilities to complete the plan, this approach meant significant dependence on external sources, either nationally or internationally.

Analysis of implementation suggests that LED action plans were put aside as a strategic documents and were overshadowed by local political priorities and/or the priorities of the international donor organizations financially supporting local development. Projects that were completed on time were almost universally either financed by

international donors as part of their regular programs or were part of central government fiscal programs. In addition, municipalities were able to implement a significant number of supplementary local development projects outside the strategic plans only as a result of financial support from donors. The positive impact of these projects on economic development is unquestionable. What is questionable is: (i) the magnitude of these positive effects, and (ii) what the municipality can do to make external interventions support goals named in the strategic plan. In this context, poor implementation procedures and imperfect implementation processes are easily overrun in cases of absent leadership and questionable continuity of the LED management.

Local leadership has proved indispensable to implementation of LED strategic plans and efficient utilization of external assistance. This particular ingredient was present in every successful example of project implementation as was perceived in cases of successful planning. Whenever the local leadership surfaced either by direct participation in the process or by membership in the municipal LED team, the outcome of that particular exercise was more successful.

At the same time, the implementation capacity of the municipality or the responsible institution demonstrated strong influence over implementation. Cases where responsibility (or partial responsibility) for implementation was with state-controlled institutions tend to be failures. These institutions are not beholden to local communities and do not have the capacity to handle LED issues, nor do they show a proper understanding of what LED entails. This is still the case today. After partial transfer of responsibilities to local governments, these institutions (some now managed locally) will continue to have problems in implementation as a result of their limited capacity and experience.

In this perspective, the provision of systematic management and coordination of activities proved an important ingredient in successful cases. The systematic approach and enthusiasm of a responsible LED coordinator, combined with joint municipal vision and the potential for contribution to the development of the municipality, kept activity of LED teams at high levels and ensured members' proactive participation. However, additional training in implementation of strategic plans could prove very beneficial. On the other hand, when implementation was subordinated to different departments within the municipal structure, coordination suffered, as did monitoring and reporting. Such a vertical implementation approach extends the available human resource in the municipal administration significantly and amplifies the need for strong coordination during implementation.

Finally, successful implementation requires not only human capacity but also financial capacity. Most projects were stopped due to the need for further investment. This was universally the case when a study was the first phase of a project and implementation was the second. Implementation always faltered due to lack of funds. Municipal representatives have expressed an expectation that this will improve following fiscal decentralization, but considering the relationship between transferred responsibilities and

genuine municipal revenue, one wonders how. Involving the private sector, increasing public awareness, focusing on local strengths, and reprogramming certain municipal expenses would yield better results both in the short and long term.

## 4.2 Recommended Steps for the Next Period

Despite its newness in Macedonia, municipalities and local stakeholders have managed to improve their understanding and application of LED since its inception. Constant capacity building is a result of increased levels of both on- and off-the-job training. As was expected, the learning curve was steepest at the beginning and missteps were more common. Still, the sense of ownership resulting from learning-by-doing always leads ultimately to better results.

However impressive they might appear to be considering the limited period of time available, much improvement is necessary to deal with the challenges of local economic development laying ahead (the possibility of credit arrangements for municipalities, management of municipal real estate, management of land for economic revival, etc.). In this context, the following section is intended to aid the local administrations in overcoming shortcomings and avoiding mistakes of the past.

### **Local governments could improve the performance of their LED strategies by:**

- Increasing public awareness of the whole process in order to create a notion of public ownership. Moreover, participation by local media in the LED process from the start would contribute to its transparency.
- Maintaining continuity in personnel, which influences the process positively, sharpening focus and avoiding confusion and miscommunication. Moreover, if the number of available municipal officers responsible for LED were increased, the municipality would be able to concentrate both on the most important municipal issues as well as preparation of project proposals that fit the scope of donor investments.
- Making revisions regularly and, if necessary, changing priorities. The recognition and correction of erroneous or shortsighted planning could have a more profound impact than insisting on the implementation of projects already doomed to fail.

### **During new or revised planning, several issues can be taken into account:**

- Think globally (nationally, regionally), but act locally! By building upon local strengths and hidden resources, avoiding too mammoth projects and sticking to local capacity in terms of management and financing, municipalities could increase the impact of projects that do not require elevated levels of financing.

- Local development should not be equalized with local economic development. LED is a component and integral part of LED, but many projects targeting local development have no place in LED strategies. The focus should be shifted to improvement of the economic component of people's lives based on local economic revival, creation of new values, and business support. Water supply systems or roads to remote villages could be only remotely connected to LED, unless there is an existing or a potential business activity in the target community.
- LED expenditures should be planned according to power and capacity and not according to needs, by concentrating on what can be really delivered (and then some). Focusing on local strengths, reprogramming certain municipal expenses, and making careful use of national credit/loan facilities could assist this exercise.
- The priorities of international donor organizations should be carefully assessed and integrated into municipal strategic papers, but external financing should not be made the primary source of financing. No institution(s) should be allowed to understand that municipal development.
- Inclusion of the private sector as much as possible would positively influence the LED process. The presence of the private sector during planning is essential, allowing for more supportive measures for businesses, insisting on greater transparency, and demanding implementation according to planned particulars.

**During implementation, there are some other issues that should not be put overlooked:**

- Use LED strategies and action plans as a guide during implementation. Offers from international donors are a temptation and can draw the course away from the strategy. In order to implement the strategies as planned and utilize outside finances as much as possible, yearly operational plans should be prepared and coupled with revisions.
- Locate the responsibility and powers for LED management in one administration level within the LSG (avoiding state-controlled institutions). Without exaggerating expectations from the LED department, avoid engaging outside agencies for implementation of parts (goals) of the LED strategy, as this could slow implementation. The agencies responsible for implementation of the projects and activities within individual goals in the LED strategy (some LED strategies have outlined these, some have not) should not be entirely owned by the municipality. PPP should be introduced as a concept during implementation and works best through implementation agencies. Creating these agencies jointly with the private sector in transitional countries might be sensitive, but still, existing local institutions including the municipality have very limited human and knowledge capacities (especially for monitoring and implementation). The sustainability of these agencies, starting their operations as a part



of the municipality administration, will be a very challenge and might lead to disappointment during the implementation period.

- Participate in additional trainings on implementation of LED action plans and build local capacity as fast and as much as possible.

**The central government could seriously assist municipalities by:**

- Relentlessly continuing the decentralization process and accelerating the intended transfer of ownership of land and other assets. In other countries, land has proved to be a very important LED tool and could be used by municipalities to support their economic development.
- Transferring to municipalities the same amounts used in the previous fiscal periods for decentralized assignments. Even though it should be expected that municipalities will not be as efficient as the state at the beginning, fiscal autonomy must be respected. Otherwise, opportunities to gain experience are extremely limited.
- Supporting the LSG in building local capacity for LED by co-organizing and co-financing additional training on implementation of LED action plans.

**International donors could achieve greater impact if they:**

- Encourage locally developed LED strategies in supported municipalities. However imperfect they might be, locally developed LED strategies generate a sense of ownership among participants and the community. Mistakes are inevitable, but long-term results will justify the learning-by-doing approach.
- Support the LSG in building local capacity for LED by organizing and co-financing additional training on implementation of LED action plans. This support should be coordinated among diverse donor organization present in Macedonia and should be developed on the basis of training needs assessments.
- Communicate the priorities of their support programs transparently in order to enable the LSG to utilize them to highest extent.
- Use investment funds to support LED strategy priorities.

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## ANNEX 1.

### Methodological Approach

In order to present a comprehensive overview of the LED situation and to build upon the support activities already implemented in Macedonia, research focused on the municipalities of Bitola, Kočani, and Tetovo—three second-tier cities serving as regional or sub-regional centers in their respective parts of the country. From the seven regional centers in Macedonia (besides the capital), Tetovo and Bitola were the only two regional centers (from seven in total excluding the capital) that had LED strategies long enough (at least three years in October 2005) to be evaluated. At the same time, since both of them are from the west of the country, Kočani was the only eastern municipality that had a strategy long enough, and is a sub-regional center (and a second-tier city). In preparation of the three case studies (Annexes 5–7), the investigation comprised analysis of the municipal strategic planning processes and resulting plans, evaluation of the progress achieved in the last three years based on key economic indicators, scrutiny of the implementation process, and review of additional information on three individual projects per municipality.

The research utilized different instruments to properly assess the effects of the implementation of the LED strategic plans. In addition to independent evaluation of implementation activities based on field visits and review of available documentation, opinions of municipal stakeholders were assessed through personal interviews.

Desk research included a review of the LED plans from the three selected municipalities, reports outlining progress made on implementation of those plans, reports from specific projects intended to stimulate local economic development, as well as available documentation from national and international support institutions.

Research began with a comprehensive substantive analysis of the local development strategic plans from the three researched municipalities, with an emphasis on their content, implementation framework, and monitoring and evaluation provisions. This was also meant to provide insights into the planning and implementation processes that took place during the development of the strategies.

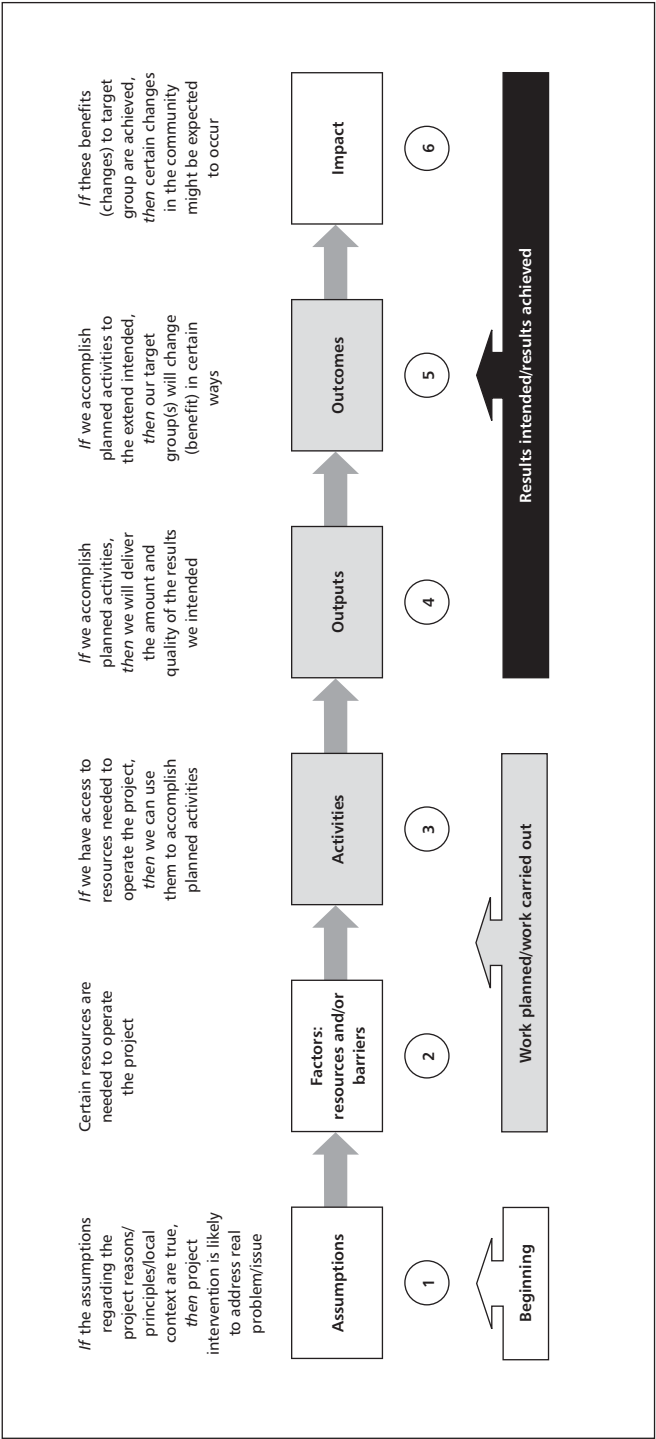
The performance analysis of the LED strategic plans at the macro (municipal) level was done on the basis of quantitative indicators assigned to each goal or sub-goals (either as set out in the strategic plans or assigned later). In the model for the assessment, an overview of the initial situation in the municipality was developed together with an overview of the major challenges since implementation began. A conclusion on performance of the LED strategic plan at macro level was developed by: (i) considering the current situation and progress achieved in respective areas (indicator-based) and

(ii) comparing regional and local trends in order to evaluate the contribution made by strategic plans to general development trends.

An in-depth analysis of three individual projects per municipality was performed, judging implementation success and key factors influencing it. The selection of projects was made with the participation of the group of local LED team members on the basis of their importance to the municipality and prioritization during the planning process. Analysis was performed on the basis of a basic If-Then Project Logic Model,<sup>14</sup> and interviews with the local stakeholders and people involved in the implementation of the LED activities locally. Aiming to provide an unbiased overview, the interviews included both individuals that were involved only in the planning stages, as well as individuals that were involved in both planning and implementation.

Effective evaluation and program success rely on the fundamentals of clear stakeholder assumptions and expectations about how and why a program will solve a particular problem, generate new possibilities, and make the most of valuable assets. The If-Then Project Logic Model was utilized as a picture of how the organization does its work, by linking the outcomes (both short and long term) with program activities/processes and the theoretical assumptions/principles of the program.

Figure A1.1  
Basic If-Then Project Logic Model



ANNEX 2.

Legislative Framework for Local Government in Macedonia

		Enacted
European Charter on Local Self-Government		1997 (signed)
Law on Local Self-Government		2002
Responsibilities of local self-governments: <ul style="list-style-type: none"><li>• urbanism, urban and rural planning</li><li>• environmental protection</li><li>• local economic development</li><li>• public communal services</li><li>• culture</li></ul>	<ul style="list-style-type: none"><li>• sport</li><li>• social welfare and children protection</li><li>• education</li><li>• healthcare</li><li>• fire protection</li><li>• construction supervision</li></ul>	

Law on Financing for Local Government	2004
<p>Sources of financing:<sup>15</sup></p> <p><b>Own-source revenues:</b></p> <ol style="list-style-type: none"> <li>1. Own source of revenues: <ol style="list-style-type: none"> <li>a) local taxes (property tax, transfer of property tax, inheritance tax, gift tax)</li> <li>b) local fees (communal fees, administrative fees)</li> <li>c) local charges (construction land charges, communal activity charges, spatial planning charges)</li> <li>d) revenues from property (rents, interests, capital revenues from property sale)</li> <li>e) fines.</li> </ol> </li> <li>2. Donations (a contract between the donator and the mayor after approval from the LSG council)</li> <li>3. Self contributions (LSG council decision defines all related variables)</li> </ol> <p><b>Shared revenues:</b></p> <ol style="list-style-type: none"> <li>1. Personal income tax revenues (distributed in at least 12 transfers) <ol style="list-style-type: none"> <li>a) Three percent from the PIT on salaries collected from the LSG on which territory the employee lives. The 2002 census provided these data, as in Macedonia the employer is responsible for paying the PIT on behalf of the employee.</li> <li>b) 100 percent PIT collected from artisan activities.</li> </ol> </li> </ol> <p><b>Transfers from the central government:</b></p> <ol style="list-style-type: none"> <li>1. VAT revenues (three percent of the total collection in the last year before the new fiscal year). Equalization fund for redistribution to at least 50 percent of the population in the LSG and 50 percent dependent on other criteria stipulated by the methodology defined by the government. The proposal for the methodology is developed every year by the Ministry of Finance in agreement with the commission for monitoring the development of the financing system. The methodology has separate provisions for the city of Skopje.</li> <li>2. Earmarked transfers/categorical grants (depending on projects and programs). The appropriate funds and ministries monitor usage of earmarked funds. Any notified irregularities would trigger a ministerial halt to the transfers.</li> <li>3. Capital transfers (in accordance with programs specified by the government). The appropriate funds and ministries monitor usage of earmarked funds. Any notified irregularities would trigger a ministerial halt to the transfers.</li> <li>4. Block transfers (in accordance with the Law on Local Government). The appropriate funds and ministries are responsible for defining methodology and formula for transfer. Distributed in at least 12 transfers. There is no specific date stipulated when the methodology will be available.</li> <li>5. Delegated competency. The mayor and the appropriate ministry responsible for the competency sign a contract.</li> </ol>	



	Enacted
Law on Property Tax	2004
Law on Communal Taxes	2004
Law on Administrative Taxes	1993
It is important to recognize that the revenues commonly referred to as “local taxes” in Macedonia are not truly local taxes. Because the municipalities have no control of the tax rates, these are basically intergovernmental transfers. The rates are prescribed by the national laws and are uniform throughout the country.	
Law on Territorial Organization of Local Government	2004
Law on the City of Skopje	2004
The new territorial division of the country resulted in 84 municipalities with an average population of 24,000 (105,454 to 1,322 inhabitants) and an average size of 301 km <sup>2</sup> (1,194 to 22.8 km <sup>2</sup> ).	

## ANNEX 3.

## Comparative Overview of the Planning Framework for LED Strategies in Selected Municipalities

	Bitola	Kočani	Tetovo
Initiation of the planning process	Municipal government applied to OSI-LGI (2000). Municipality was approached by the Local Government Reform Project.	Municipality was approached by the Local Government Reform Project.	Municipality was approached by the Local Government Reform Project.
Management of the strategic planning process	Municipality (2000) LGRP (2002)	LGRP	LGRP
Financial support of the planning process	OSI-LGI (2000) LGRP-USAID (2002)	LGRP-USAID	LGRP-USAID
Assessment of municipal capacity for development of LED strategy	No	No	No
LED coordination	Municipal employee. During the researched period three different coordinators were responsible for LED. The current LED coordinator was essentially municipal coordinator for international projects, trying to combine these two activities for a period of two years. Just recently, after the last changes in the municipal organization (2005), the main focus of coordinators' professional activities was LED.	Municipal employee. The LED coordinator is the same person during the period 2002–2005 providing continuity in the formulation of the LED strategy, its development process, and its implementation. The implementation results are a direct consequence of the management profoundness and continuity in the personal solutions in the Municipality of Kočani.	Outside agency. The mayor decided to invite and engage the local Enterprise Support Agency (ESA) for the purpose development and implementation of the LED Strategy. One of the ESA's senior employees became the LED coordinator for Tetovo, whereas ESA itself served as the municipal LED office and was leading the whole process of local economic development

	Bitola	Kočani	Tetovo
<b>LED team</b>	The municipality established a working group for LED and appointed a coordinator of the working group. The group consisted of 11 members with very diverse professional back-ground. Three were from the local branches of ministries: agriculture, economy, and transport, two from the local banks, and one each from the regional branch of the national office of statistics and the regional branch of the employment bureau, two from the municipality and one local representative from the National Public Enterprise for Housing.	Based on training in introduction of LED management and activities, a 15-member LED team was proposed by the mayor and the LED coordinator. The team was officially approved by the Municipal Council. The members were from the municipal administration, municipal enterprises, or local branches of state enterprises, the health service, the media, and finally private businesses.	With the exception of one representative from the handicrafts association, all of the members of the LED working group were part of the municipal administration. This was due to the belief that they would take on their new responsibilities as part of their official duty. However, members of the LED team (confirmed by the Municipal Council) were not motivated and the limited presence during planning meetings affected results. Most of the work was carried out by the LED coordinator and ESA Tetovo.
<b>Political support to the LED process</b>	Not particularly strong.	Very strong, the mayor was a member of the LED workgroup.	Strong during the mandate of the mayor that initiated activities. Although he was not a member of the LED team himself, he was very supportive and was active in decision making.

	Bitola	Kočani	Tetovo
Training			
• LED organization and management	Yes	Yes	Yes
• municipal profiling	Yes (2002)	Yes	Yes
• SWOT Analysis	Yes (2000)	Yes	Yes
• strategic planning of LED	Yes (2000)	Yes	Yes
• action planning of LED	Yes	Yes	Yes
• management of LED	No	No	No
• monitoring of LED	No	No	No
Public awareness and involvement in the LED process	<p>The public was not aware of the existence of the LED action plan in 2000 and did not actively participate in the process of implementation.</p> <p>In 2002 the LED Center implemented a survey of the businesses and the community in Bitola in order to understand the needs of the local population and businesses.</p>	<p>Prior to final submission for approval, the LED strategy was presented to local citizens at a municipal meeting covered by local radio stations. It enabled citizens that were not able to be a part of the strategy development process to get acquainted with the LED strategy, to positively influence its improvement in several instances, to accept it both as a municipal strategy document as well as a guide and, finally, to work towards its implementation.</p>	<p>Apart from one survey of businesses, citizens, and institutions on municipal needs and objectives, there was no public awareness or involvement in the LED process.</p>

	Bitola	Kočani	Tetovo
Financing secured/foreseen in the municipal budget	Not at all.	Only for certain design projects.	Not at all.
Local economy assessment	Community strategic plans are adopted and annually maintained by local councils and linked to the budget process.	Very limited statistical data. In some cases replaced during the planning with quantitative data that was both available and reliable.	Very limited statistical data.

## ANNEX 4.

## Comparative Overview of the Implementation Framework for LED Strategies in Selected Municipalities

	Bitola	Kočani	Tetovo
Prioritization of projects	<p>Activities (strategies, projects) were prioritized using a five-grade numbering system based on predefined criteria.</p> <p>As an input for prioritization of projects during the review, surveys of businesses and community members were conducted.</p>	<p>Prioritization used individual grades based on previously defined criteria.</p> <p>Setting priorities and main goals enabled the definition of four action plans that followed the directions for development.</p>	<p>Research was conducted among businesses, citizens, and institutions into the needs and objectives for municipal development. Based on the results (a list of conditions that were identified as crucial for improving life in the municipality) the LED team prioritized the projects (by assigning individual notes) providing a basis for elaboration of the action plans, which have been prepared in brief.</p> <p>No additional action plan was developed to replace the one briefly prepared during planning.</p>

	Bitola	Kočani	Tetovo
<b>Overall implementation of LED strategic plan</b>	<p>Initially, neither implementation, nor the process of monitoring and evaluation were mentioned in the strategic plan. The implementation of the strategic plan followed priorities set by international donors.</p> <p>After revision an effort was made to assign a responsible institution to the implementation of individual projects, a timeframe for implementation, and an estimate of the required budget and potential sources of financing.</p>	<p>Implementation provisions are given in the LED strategy's implementation plan. The plan lays out budgetary and human resource as well as institutional and procedural implications of implementation.</p> <p>Each project was assigned a project number and realization period, and accompanied by a short description.</p> <p>The last step in the planning process was to determine responsible subjects for the action plans, possible sources of financing and the amounts necessary for implementation of each project individually.</p>	<p>Initially, neither implementation, nor the process of monitoring and evaluation were mentioned in the strategic plan. The implementation of the strategic plan followed priorities set by international donors and the current administration (the mayor and the municipal council), not the ones determined in the strategic plan.</p> <p>Since changes in the municipal administration, implementation is done through different municipal departments depending on project sector, without powerful (even any) horizontal coordination.</p>
<b>Monitoring and evaluation system</b>	<p>No indicators have been identified for monitoring implementation of the LED strategy and analysis of its impact.</p> <p>No evaluation system was foreseen.</p>	<p>The LED strategy identifies indicators for monitoring of implementation of the LED strategy and analysis of its impact. However, indicators are not quantified.</p> <p>Monitoring was a responsibility of the four so-called animators (one for each action plan) that in turn report to the LED coordinator.</p> <p>No evaluation system was foreseen.</p>	<p>No indicators were identified for monitoring of the implementation of the LED strategy and analysis of its impact.</p> <p>No evaluation system was foreseen.</p>

	Bitola	Kočani	Tetovo
LED implementation body	None at first LED department from 2005	LED department	ESA—Tetovo Recently—Unit for LED
Financing of the implementation of the strategy	Own finances to a very limited extent.  The number of implemented LED projects and extensive number of additional development projects implemented were exclusively financed by international donors.	Own finances were utilized as participation financing in donor projects and/or for preparation of studies/designs.  The large number of implemented LED projects and significant number of additional development projects were exclusively financed by international donors.	Own finances to a significant extent in relation to bigger infrastructure projects.  The number of implemented LED projects and extensive number of additional development projects implemented were exclusively financed by international donors.
Resources needed for implementation of the strategy	No resources under municipal control.	No resources under municipal control.	No resources under municipal control.
Assessment of the local institutional capacity for implementation	No assessment was carried out.	No assessment was carried out.	No assessment was carried out.



	Bitola	Kočani	Tetovo
<b>Building of local capacity to implement LED strategies and specific projects</b>	<p>No training on implementation of LED strategies was delivered.</p> <p>A Municipal Economic Council (responsible for implementation, monitoring, and evaluation of the LED Action Plan) was envisioned, to be convened immediately after the approval of the action plan, but this never happened.</p>	<p>No training on implementation of LED strategies was delivered.</p> <p>The LED strategy foresees a number of agencies for implementation of the projects and activities within individual goals in the LED strategy. Establishment of these agencies has not happened due to the fact that the existing local institutions including the municipality have limited capacity, as became apparent during monitoring and implementation.</p>	<p>No training on implementation of LED strategies was delivered.</p> <p>The privatization of ESA advanced during the planning process, and it became an independent development agency that was supposed to secure its own survival instead of being financed by an international donor. Although the municipality is one of its partial owners, its rights to engage the agency for its own purposes are now limited.</p>

## ANNEX 5.

### Implementation Status of LED Strategy in Bitola 2002–2005

#### *Vision*

Development into a regional economic center, with high quality municipal services, a wide-ranging business network, and an advanced cross-border cooperation network, thereby reducing unemployment.

#### *Main municipal problem areas*

- declining local economy
- high rate of unemployment
- underdeveloped transportation infrastructure

Goal	Project	Planned timeframe	Implementing agency	Actual progress status/Comments	Budget (USD)
<b>1. Development (establishment) of the municipality and the region as a center for economic development</b> Considering Bitola's economic situation and potential, development (establishment) of the municipality and region as a center for economic development is the most important LED goal. The LED Action Plan contains eight projects that will move toward that goal. Despite their importance only two of the eight projects were initiated, both based on support from international donors.					
1	Exemption from communal taxes	3 months	<ul style="list-style-type: none"> <li>– The board for social taxes</li> <li>– Socioeconomic board of the municipality</li> </ul>	Never started	/
2	Initiative for construction of a free economic zone	6 months	<ul style="list-style-type: none"> <li>– Municipality</li> </ul>	Never started	10,000
3	Construction of a regional wholesale market	24 months	<ul style="list-style-type: none"> <li>– Municipality</li> <li>– Public enterprise "Pazari"</li> </ul>	Never started	100,000
4	Initiative for alteration and supplementation of the Law on Handicrafts regarding exemption from taxes	12 months	<ul style="list-style-type: none"> <li>– Municipality</li> <li>– Local branch of the MoE</li> <li>– Bitola's MPs</li> <li>– Chamber of Craftsmen</li> </ul>	Never started	/
5	Creation of a tourist bureau	6 months	<ul style="list-style-type: none"> <li>– Municipality</li> </ul>	Ongoing Started 2005	2,000
6	Creation of a center for economic development	12 months	<ul style="list-style-type: none"> <li>– Municipality</li> <li>– Local branch of the MoE</li> <li>– Syndicate</li> <li>– Regional Chamber of Commerce</li> </ul>	Started with some delays in 2002 with the establishment of the Municipal Office for LED	50,000
7	Creation of a socioeconomic board	6 months	<ul style="list-style-type: none"> <li>– Municipality</li> </ul>	Never started	/
8	Initiative for introduction of the subject "basic economics" into high schools	6 months	<ul style="list-style-type: none"> <li>– Municipality</li> <li>– State Pedagogical Institute</li> <li>– Secondary Economic School</li> </ul>	Never started	/

Goal	Project	Planned timeframe	Implementing agent	Actual progress status/Comments	Budget (USD)
<b>II. Reducing unemployment</b> From the four planned projects aimed at reducing unemployment only two were ever started. One was implemented completely, while the other is a continuous activity (completion is not relevant). The other two projects are essentially more connected to goal one, and were moved to goal two only after revision of the action plan. No work has been done on either of them.					
1	Creating an incubator	6 months	<ul style="list-style-type: none"> <li>– Municipality</li> <li>– Fund for development of SMEs</li> <li>– Local branch of the MoE</li> <li>– Syndicate</li> <li>– Employment Agency</li> </ul>	Never started	250,000
2	Creating a Fund for Economic Development	12 months	<ul style="list-style-type: none"> <li>– Municipality</li> <li>– Center for economic development</li> </ul>	Never started	30,000
3	Training, vocational retraining, and qualification for a higher positions	Permanently	<ul style="list-style-type: none"> <li>– Employment office</li> </ul>	Ongoing	600–1,000 per person
4	Retention of existing jobs and creation of new jobs	24 months	<ul style="list-style-type: none"> <li>– Municipality</li> <li>– Local branch of the MoE</li> <li>– Syndicate</li> <li>– Employment Agency</li> </ul>	Completed on time	20,000

Goal	Project	Planned timeframe	Implementing agent	Actual progress status/Comment	Budget (USD)
<b>III. Improvement and expansion of local and regional transportation infrastructure.</b> The projects under goal three of the LED action plan (improvement of transport communications to the EU and connection to the east-west transport corridor) were implemented to a very limited extent. Of the five planned projects, only one was initiated and is still at the initial stage. It is impossible to judge the impact of these measures.					
1	Initiative for construction of a regional airport	12 months	<ul style="list-style-type: none"> <li>– Municipality</li> <li>– Public enterprise for urban planning—Bitola Dept.</li> <li>– Bureau for urban design</li> </ul>	Never started	10,000
2	Construction of the Veles–Prilep road (M5)	60 months	<ul style="list-style-type: none"> <li>– Ministry of Transport and Communication</li> </ul>	Never started	110,000,000
3	Initiative for re-opening of the Bitola–Florina railway (Greece)	6 months	<ul style="list-style-type: none"> <li>– Municipality</li> </ul>	Never started	No information
4	Reconstruction of the road from Bitola to the Greek border	24 months	Republic fund for regional and main roads	Started with some delays in 2004 with the development of a project proposal, still lacking technical design.	4,000,000
5	Construction of an industrial bypass road	24 months	Republic fund for regional and main roads	Never started	24,000,000

## ANNEX 6.

### Implementation Status of LED Strategy in Kočani 2002–2005

#### *Vision*

Creating conditions for positive economic growth in the municipality in the next five years by establishing a use and management system for local resources (economy) that will enable retention of current employment and create new employment.

#### *Main goals*

1. Support existing businesses and create conditions to ease the formation of new businesses.
2. Create conditions for advancement of existing traditional agricultural methods that yield ecologically clean products.
3. Create conditions for development of mountaineering and the spa tourism.
4. Create conditions for appropriate educational infrastructure.

I. Support existing businesses and create conditions to ease the formation of new businesses						
<p>The first goal of the LED strategic plan is seen as most important to municipal development and includes 35 percent of all projects totaling 75 percent of planned investment. After the three-year period of implementation, this goal is still considered the most important and receives most implementation efforts. Although only two of the planned<sup>16</sup> projects have been completely implemented during the observed time period, an additional 16 projects are being implemented, with completion planned by the first half of 2006. The delay in implementation was due to the fact that less than 11 percent of planned financial resources were secured. The municipality started implementation on time on occasions where the municipality was the responsible subject and no additional help was planned. The rest of the projects started depended on financial resources from donors or national institutions. This fact slightly delayed the implementation of individual projects, but the timeframe for implementation was kept, and the implementation of these projects serves the determined priority.</p>						
Ord. No.	Project	Planned timeframe	Implementing agent	Possible investors	Actual progress status	Estimated cost (USD)
1	Creating an SME development agency	04–06/2003	Municipality	Municipality, Republic of Macedonia Privatization Agency, the FARE program for development of LS, USTDA, Know-how Fund	In progress, started 2005	70,000
2	Initiative to change the Law on Construction to allow municipal ownership of land.	04–06/2003	ZELS through the government of Republic Macedonia Municipal council		Finished 2003	15,000
3	Study on restarting the factory <i>Celuloza i Hartija</i>	04–06/2003	Municipality Ministry of Economy Regional unit Kočani	Ministry of Economy USTDA, IFC, ASEF EBRD–TAM	Finished without success	150,000
4	Finishing the town chapel with completed <i>parterre</i> decoration			Public Enterprise “Kočani” Municipality, Form PPP	In progress, started 2005, expected to finish 04/06	

Ord. No.	Project	Planned timeframe	Implementing agent	Possible investors	Actual progress status	Estimated cost (USD)
5	Creating branches of economic chambers	06–09/2003	Municipality	Self financing	In progress phase I—finished	
6	Creating technical documentation for dam on the Orizari River	10–12/2003	Vodovod Municipality of Kočani Municipality of Orizari Water trade enterprise Bregalnica	Municipality of Kočani Municipality of Orizari Agency for undeveloped regions, fund for water Ekolinks, compensation funds, EAPS–PPEA	In progress	500,000
7	Project for digitalization of DUP in the municipality	10–12/2003	Municipality Geodesy management	Municipality, Geodesy management, FARE project for development of LS	In progress	100,000
8	Creating study for separating sewage from the atmospheric system, with the possibility of choosing a location for a water treatment center	10/2003–06/2004	Vodovod	Vodovod GTZ–Germany, ministry and fund for the environment, fund for water USTDA, USEPA, EAPS–PPEA Ekolinks	In progress, started 2003	30,000
9	Asphalting and upgrading streets in the center of town and surrounding settlements	07/2003–03/2004	Municipal fund for roads and streets	Fund for roads and streets IOM–CBI CSHI–LBG	In progress	380,000



Ord. No.	Project	Planned timeframe	Implementing agent	Possible investors	Actual progress status	Estimated cost (USD)
10	Construction of complete infrastructure at the old military bakery (power station, roads, sewage, water supply)	07/2003–03/2004	Public enterprise “Kočani”	FARE Project for development of LS, municipality, international investment institutions (UNDP, USAID, EAR), PHARE Project for development of LS, IOM–CBI CSHI–LBG	In progress, started 2003	350,000
11	Complete construction of the infrastructure in the zone of light industry (power station, roads, sewage system)	07/2003–03/2004	Public enterprise “Kočani”	Public enterprise “Kočani” UNDP IOM–CBI CSHI–LBG	In progress Feasibility study—phase I finished	400,000
12	Creating technical documentation for factory for processing solid waste	10/2003–03/2004	Vodovod	Vodovod, municipality, ministry and the fund for the environment, GTZ USTDA USEPA, EAPS–PPEA	In progress, started 2005	500,000
13	Construction of a system for exploiting geothermal water to heat the center of town	04/2004–03/2005	Vodovod–Geothermal	Vodovod, municipality, international investment institutions (UNDP, USAID, EAR), Form PPP, compensation funds, EBRD–DIF	In progress, started 2005	4,000,000
14	Creating program to decrease unfair competition	07–09/2004	Ministry of Labor, Kočani department, municipality	Ministry of Labor Republic of Macedonia Privatization Agency		6,000

Ord. No.	Project	Planned timeframe	Implementing agent	Possible investors	Actual progress status	Estimated cost (USD)
15	Creating an underground cadastre	07–12/2004	Municipality, public enterprises	Municipality, public enterprises, FARE project for development of LS, Geodesy management		120,000
16	Creating technical documentation for water treatment center	10/2004–03/2005	Vodovod	Vodovod, municipality, USTDA, USEPA, EAPS–PPEA Ekolinks, ministry and fund for environment, Fund for water	In progress, started 2005 Feasibility study—phase I finished	100,000
17	Creating technical documentation and construction of traffic bridge at the bridge by the mosque	10/2004–03/2005	Public enterprise “Kočani”	Public enterprise “Kočani” IOM–CBI	In progress	70,000
18	Study for use of alternative energy	10/2004–03/2005	Municipality Vodovod	Vodovod, municipality, USTDA, UNDP, USAID, EAR FARE project for development of LS	Started 08/05 Finished 12/05	20,000
19	Construction of factory for recycling solid waste	04/2005–03/2006	Vodovod	Vodovod, municipality, international investment institutions (UNDP, USAID, EAR), Form PPP, compensations funds, EBRD–DIF		15,000,000

Ord. No.	Project	Planned timeframe	Implementing agent	Possible investors	Actual progress status	Estimated cost (USD)
20	Construction of water treatment center	01–12/2006	Vodovod	Vodovod, municipal international investment institutions (UNDP, USAID, EAR), Form PPP, fund for water, compensation funds EBRD–DIF		15,000,000
21	Creating technical documentation of public building with underground parking in the trade center	07–12/2006	Public enterprise Municipality	Public enterprise for flats and business premises, Public enterprise “Kočani”		40,000
22	Construction of underground parking in the trade center	01–09/2007	Municipality JPSPD	JPSPD Public enterprise “Kočani,” Form PPP		1,200,000
23	Construction of public building—business center in the trade center	04–12/2007	Municipality JPSPD	JPSPD Public enterprise “Kočani,” Form PPP		6,000,000
24	Construction of pensioners’ home	07–12/2007	Ministry of Labor and Welfare Center for welfare—Kočani	Ministry of Labor and Welfare, Form PPP		450,000

II. Create conditions for advancement of existing traditional agricultural methods that yield ecologically clean products						
Despite good conditions for agricultural development, the second goal of the LED strategic plan includes only 13 percent of all planned projects with less than 0,5 percent of planned investment. Of the seven planned projects, two were completed and three started implementation in the three-year period. As with previous goals, only 12 percent of the planned financial resources were provided, but the percentage of finished projects is much higher. One project started within the planned timeframe and was been finished according to plan, but there is no project to build on its results. Of the three ongoing projects, one is expected to provide quantifiable measurements of impact on municipal economy. None of the projects themselves nor the data provided from the municipality gives significant indications of improvements due to implementation of the LED strategic plan.						
Ord. No.	Project	Planned timeframe	Implementing agent	Possible investors	Actual progress status	Estimated cost (USD)
1	Study for reorganization of agricultural production	04–09/2003	Municipality Ministry of Agriculture Farmers Initiative Rice Institute	Municipality Ministry of Agriculture Farmers Initiative, Rice Institute IFAD	In progress, started 2004	12,000
2	Study for organic agriculture on the territory of the municipality of Kočani	04–12/2003	Municipality EA “Javor”	Municipality EA “Javor”	Finished 2003	8,000
3	Study for determining the locations in for production of ecologically clean products	10/2003 –06/2004	Municipality Ministry of Agriculture Farmers Initiative Fund for the environment	Municipality Ministry of Agriculture Farmers Initiative Fund for the environment IFAD, Office for undeveloped areas EAPS–PPEA	In progress, started 2005	14,000
4	Initiative for capacity building in production of agricultural products	07/2004 –06/2005	Municipality Ministry of Transport and “Links” Public enterprise “Kočani”	Private enterprises from the area of agriculture with help from the Italian Institute for Foreign Trade (ICE), SOROS, MRFIP, IFAD	In progress, started 2003	

Ord. No.	Project	Planned timeframe	Implementing agent	Possible investors	Actual progress status	Estimated cost (USD)
5	Study of existing agricultural pests to propose measures for their reduction	01–06/2005	Municipality Ministry of Agriculture Farmers Initiative	Municipality Ministry of Agriculture Farmers Initiative IFAD		9,000
6	Preparing a program for destruction of mosquitoes	07–09/2005	Ministry of Agriculture Office of health		Finished 2005	
7	Creating a project for redistribution of agricultural land	07/2005 –03/2006	Ministry of Agriculture Geodesy management Municipality	Ministry of Agriculture Geodesy management IFAD		170,000
8	Creating a study to establish a drip irrigation system on the area not covered by the detailed water supply network	01–09/2006	Municipality Ministry of Agriculture Farmers Initiative Fund for the environment	Municipality Ministry of Agriculture Farmers Initiative Fund for the environment IFAD		14,000
9	Creating technical documentation and construction of green market at the “Tekušinski lozja” site	04–06/2007	Vodovod Public Enterprise “Kočani”	Vodovod Public Enterprise “Kočani”		12,000

III. Create conditions for developing mountaineering and spa tourism						
<p>Creating conditions for development of mountaineering and the spa tourism, the third goal of the LED strategic plan, is widely expected to provide a boost to future development of the municipality. This goal includes 26.5 percent of all planned projects with almost 20 percent of planned investment. Of the 11 planned projects, five were completed on time and two are currently being implemented. Because this goal is very important to future municipal development and impacts all other goals, the effort has been more focused here. Almost 24 percent of planned financial resources were provided and almost half of planned projects were completed. The first priority was the first to commence and was completed within the planned timeframe. Outlining his systematic approach, the LED coordinator pointed out that the municipality was aware that there were numerous possibilities to apply for financing. This was true, and external financing was the main reason more resources were provided for this goal. One additional reason for the high percentage of project completion was the municipal focus on creating preconditions for real foreign investment in the tourist center and the spa resorts and consequent implementation of projects that involved road infrastructure improvement ahead of the action plan. Moreover, the municipality will delegate to the local agency of tourism the responsibility for implementation of projects related to tourism, anticipating more efficient and effective results in the near future. Completion was expected by mid-2006.</p>						
Ord. No.	Project	Planned timeframe	Implementing agent	Possible investors	Actual progress status	Estimated cost (USD)
1	Creation of GUP (General urbanization plan) and DUP (Detailed Urbanization Plan) for Ponikva (the area from "Preslapot" to "Šumskata kukička")	01-06/2003	Municipality	Municipality Public Enterprise "Kočani"	Finished 2003	9,000
2	Creating a local agency for development and promotion of tourism in Kočani and its region	07-09/2003	Municipality	Municipality Private initiative Know-how Fund	In progress, started 2005	30,000

Ord. No.	Project	Planned timeframe	Implementing agent	Possible investors	Actual progress status	Estimated cost (USD)
3	Creating a study for construction of a earthen dam in the Aramiška Česma river basin area and the systematic solving of water supply problems in Ponikva	07/2003–03/2004	Municipality	Municipality Fund for water Agency for undeveloped regions USTDA		20,000
4	Revitalization of hunting tourism	01–03/2004	Municipality Public Enterprise for forest	Municipality Public Enterprise for forest	In progress, started 2005	1,000
5	Finishing the mountaineering home in Ponikva	04–09/2004	Municipality Public Enterprise "Kočani"	Public Enterprise "Kočani" Form PPP, Concession		90,000
6	Electrification of the planned weekend area with new power stations and electrical network	07–12/2004	Public enterprise "Kočani"	Public enterprise "Kočani" Agency for undeveloped regions		350,000
7	Creating technical documentation covering the city swimming pool	07–09/2004	Public enterprise "Kočani" Municipality Vodovod	Public enterprise "Kočani" Municipality Vodovod IOM–CBI		70,000
8	Construction of parking and public WC in Ponikva	07–12/2004	Public enterprise "Kočani" Municipality	Public enterprise "Kočani" Municipality Form PPP, CSHI–LBG IOM–CBI	Finished 2005	60,000

Ord. No.	Project	Planned timeframe	Implementing agent	Possible investors	Actual progress status	Estimated cost (USD)
9	Creating technical documentation for an earthen dam in the Aramiska Česma river basin area	10/2004–06/2005	Water work organization “Bregalnica” Public enterprise “Kočani”	Waterworks organization “Bregalnica” Public enterprise “Kočani” Agency for undeveloped regions USTDA	Finished 2004	50,000
10	Dislocation of ski-lift two and continuation of ski-lift three	07–09/2005	Municipality Public enterprise “Kočani”	Municipality Public enterprise “Kočani” Form PPP, Concession		40,000
11	Creating technical documentation for a spa center and recreational sports center in Zorik	10/2005–03/2006	Municipality Public enterprise “Kočani” Vodovod	Municipality Public enterprise “Kočani” Vodovod		25,000
12	Asphalting of the Aerodrom—Preslap road in Ponikva.	04–06/2006	Fund for local roads	Fund for local roads Agency for undeveloped regions CSHI–LBG		180,000
13	Construction of a geothermal spa	04–12/2006	Municipality Public enterprise “Kočani” Vodovod	Municipality Public enterprise “Kočani” Vodovod Concession Form PPP		500,000



Ord. No.	Project	Planned timeframe	Implementing agent	Possible investors	Actual progress status	Estimated cost (USD)
14	Creating technical documentation and construction of a fountain and summer area in the northern part of the city park	07–12/2006	Municipality Public enterprise “Kočani” Vodovod	Public enterprise “Kočani” IOM–CBI	Finished 2004	50,000
15	Construction of circular asphalt road connecting the Osogovo mountains with city	04–09/2007	Fund for local roads	Fund for local roads Agency for undeveloped regions CSHI–LBG	Finished 2004	400,000
16	Asphalting the Pantelej–Rajčani road	07–09/2007	Fund for local roads	Republic fund for roads Agency for undeveloped regions		180,000
17	Construction of universal sports hall in the Zorik sports recreation center.	07–12/2007	Public enterprise “Kočani” Vodovod	Public enterprise “Kočani” Ministry of youth and sport Form PPP		8,000,000
18	Construction of an earthen dam in the Aramiska Česma river basin area and the systematic solving of the water supply problem in Ponikva	07–12/2007	Public enterprise “Kočani” Vodovod	Waterworks organization “Bregalnica” Public enterprise “Kočani” Agency for undeveloped regions Fund for water Fund for the environment		1,500,000

IV. Create conditions for appropriate educational infrastructure						
Creating conditions for appropriate educational infrastructure includes 25 percent of all planned projects with less than four percent of planned investment. Of the 11 planned projects in the three-year period, seven were completed on time and two are ongoing. As in the previous cases only 16 percent of the planned financial resources were provided. However, the percentage of finished projects is much higher. These were mostly short-term rehabilitations of existing schools implemented with donor assistance. Contrary to the planning, no new schools were built, but two of the projects that were finished created studies for competitions among schools. Importantly, every school now has an equipped IT lab and 95 percent of the schools are connected to the internet. This systematic approach to donor assistance, together with a 12.5 percent increase in the number of companies registered in the educational sector, can be considered indicators of improvements due to implementation of the LED strategic plan.						
Ord. No.	Project	Planned timeframe	Implementing agent	Possible investors	Actual progress status	Estimated cost (USD)
1	Creating a program to ease school attendance	01–06/2003	Every school in the municipality, separately		Finished 2003	
2	Creating technical documentation for boarding school accommodation	07–12/2003	Municipality	Ministry of Education Municipality		20,000
3	Creating a program for competitions among schools in Informatics	10–12/2003	Schools		Finished 2005	
4	Creating program for activities—competitions among schools in different sports	07–09/2003	Schools		Finished 2004	
5	Construction of boarding school and other accommodation capacities	01–12/2004	Municipality	Ministry of Education Municipality IOM–CBI, CSHI–LBG		350,000

Ord. No.	Project	Planned timeframe	Implementing agent	Possible investors	Actual progress status	Estimated cost (USD)
6	Rehabilitation of the Rade Kratovče primary school	07–09/2004	School	Ministry of Education IOM–CBI, Government of Germany through GTZ	Finished 2003	60,000
7	Equipping every school in the municipality with an IT study room	07–09/2004	Schools	Ministry of Education IOM–CBI CSHI–LBG	Finished 2004	150,000
8	Connecting schools to the internet and providing possibilities and conditions for learning through the internet	10–12/2004	Schools	Ministry of Education IOM–CBI CSHI–LBG	In progress, started 2005	10,000
9	Creating a program for a center for press, radio, and television	07–09/2004	Radio and TV Kočani	Municipality		3,000
10	Rehabilitation of the Malina Pop Ivanova primary school	07–09/2005	School	Ministry of Education IOM–CBI Government of Germany through GTZ	Finished 2004	90,000
11	Creating technical documentation and construction of a sports hall in the Nikola Karev primary school	07/2005–06/2006	School Ministry of Education	Ministry of Education IOM–CBI Government of Germany through GTZ		300,000

Ord. No.	Project	Planned timeframe	Implementing agent	Possible investors	Actual progress status	Estimated cost (USD)
12	Construction of new study rooms and rehabilitation of the Nikola Karev primary school	04–12/2006	School	Ministry of Education IOM–CBI Government of Germany through GTZ		250,000
13	Creating technical documentation for schools and ambulances in mountainous areas	10–12/2006	Municipality	Agency for undeveloped regions Ministry of Education	Finished 2003	12,000
14	Rehabilitation of the schools in the villages of Beli and Nivičani	07–09/2006	School	Agency for undeveloped regions Ministry of Education IOM–CBI	In progress, started 2004	150,000
15	Creating technical documentation for new primary school in T. Lozja	10/2006–03/2007	Ministry of Education	Ministry of Education Municipality IOM–CBI CSHI–LBG		25,000
16	Construction of schools and ambulances in mountainous areas	04–12/2007	Municipality	Agency for undeveloped regions Ministry of Education Ministry of Health IOM–CBI		110,000
17	Construction of a new primary school in T. Lozja	04–12/2007	Ministry of Education Municipality	Ministry of Education CSHI–LBG IOM–CBI		480,000

## ANNEX 7.

### Implementation Status of LED Strategy in Tetovo 2002–2005

#### *Vision*

Research and identify problems that affect Tetovo's inhabitants to prepare better development plans and programs to meet the needs and expectations of the citizens.

#### *Goals*

- infrastructure development;
- development of local economy;
- social infrastructure development.

I. Infrastructure development					
<p>The first goal of the LED strategic plan was seen as most important to municipal development. It includes 42 percent<sup>17</sup> of all planned projects. It was also seen as the most difficult to implement due to the need for bigger investments than the municipal budget could provide. Half of the planned projects were started, but most of them are yet to be completed. Generally, project initiation was almost totally dependent on available financial resources from international donors or the national level. Therefore, the timeframe for implementation was generally delayed, although projects were started according to the priorities set in the strategic plan.</p>					
Project (activity)	Implementing agency	Timeframe	Forecasted budget (USD)	Actual project status	Current and potential sources of finance
1. Water supply for Tetovo	Tetovo municipality and P.U.E Tetovo	2003 2004 2005	Donation from KFW	Project documentation exists, but only 20 percent of the next subproject has been finished	<ul style="list-style-type: none"> <li>– donations from KFW</li> <li>– budget of RM</li> <li>– municipal budget</li> <li>– self-participation and contribution from citizens</li> </ul>
The city's water supply including the water from the Pena and Studena Voda rivers	Tetovo municipality and P.U.E Tetovo	2003	Donation from sale of Telekom 10,000,000	Not finished, set as priority for 2006	Telekom and KFW bank
2. Preparation of general project plan for industrial waste and drainage system	Kitelberger and Komuna projekt Tetovo	2003	Donation from KFW	Study is finished	KFW bank
3. Sewage and sewage purifying station	Kitelberger and Komuna projekt Tetovo	2003 2004 2005	Donation from KFW 5,000,000	Preparation phase, not started	KFW bank
4. Garbage disposal and recycling factory	Kitelberger and Komuna projekt Tetovo	2003 2004	20,000,000	A site for the garbage disposal area has been located, but has not been approved.	Foreign partner and municipal budget

Project (activity)	Implementing agency	Timeframe	Forecasted budget (USD)	Actual project status	Current and potential sources of finance
5a. Paving Boulevard B. Toska from B. Miladinovi to Ilinden	Fund for local roads P.E. Geoinzhenering	2003–2008	700,000	Revised project, no building license, set as priority in 2006	
5b. Paving Ilinden Boulevard	Fund for local roads P.E. Geoinzhenering	2004–2006	400,000	Almost finished	
6. Improving the bank of the Pena River	Municipality			Project documentation finished, the start date depends on provided finances	Foreign donation

II. Local economic development					
<p>The second goal of the LED strategic plan includes only 21 percent of all planned projects, despite its importance to local and regional economic development. Of the four projects planned for implementation in the five-year period, two were started within the planned timeframe, but none were completed according to the initial plan. It is difficult to assign quantifiable measures to the impact of these projects on the municipal economy. The reconstruction of buildings damaged during the crisis was financed with assistance from an international donor, and it was more than 80 percent complete. The office for promotion of local business within the municipality administration was formally opened at the time when the strategic plan was developed, but it does not cover targets set out in the plan.</p>					
Project (activity)	Implementing agency	Time-frame	Forecasted budget (USD)	Actual project status	Current and potential sources of finance
1. Establishment of an office for promotion of local business and economic development	Municipality			Started 2003, not yet completely finished	
2. Economic and social development study of Tetovo municipality	Municipality			Not started	
3. Improvement of the conditions and increase of service quality of public enterprises	Municipality				
4. Repairs to buildings damaged during the crisis	Municipality and donors	2003		App. 80 percent finished	Donation



III. Social infrastructure development					
The third goal of the LED strategic plan was expected to provide better living conditions to citizens in the municipality and improve social life. This goal includes 38 percent of all planned projects, but of the seven planned projects, only two were started. Improvement to education infrastructure cannot be measured due to lack of data, but the almost eight percent increase in the number of companies in this sector points toward a positive impact. The other project for the establishment of the local TV station is still in its initial stage. Therefore, it is impossible to discuss the impact of these measures.					
Project (activity)	Implementing agency	Timeframe	Forecasted budget (USD)	Actual project status	Current and potential sources of finance
1. Improvement of education conditions	Municipality			Started, not finished, new primary school planned for 2006	
2. Building a library	Municipality			Not started, waiting for donation	
3. Public parking lots	Municipality			Not started, waiting for donation	
4. Sport center	Municipality			Not started, waiting for donation	
5. Reconstruction of cultural-historic objects	Municipality			Not started, waiting for donation	
6. Project for new livestock market and green markets in several quarters of the city	Municipality	2003 2004 2005	1,000,000	Preparation of technical documentation and determination of location, but not started	Donations USAID Self-contribution
7. Local TV station	Radio Tetova	2003	400,000	Building finalized, missing equipment	Tetovo municipality Self-contribution Foreign donations CARDS Program

IV. Projects not included in the strategic plan, but existing in the action plan					
Project (activity)	Implementing agency	Timeframe	Forecasted budget (USD)	Actual project status	Current and potential sources of finance
Building and equipping lab to monitor quality of drinking water and sewage	Tetovo municipality and P.U.E Tetovo	2003	250,000	Looking for sources of finance	Donations, USAID Self-contribution
Monitoring project of water supply and sewage systems	Tetovo municipality and P.U.E Tetovo	2003–2010	1,500,000	Preparation of technical documentation and sources of finance	Donations, USAID Self-contribution
Dog pound	Tetovo municipality and P.U.E Tetovo	2005	2,000,000	Preparation of technical documentation and determination of the location	Donations from UNDP Budget of RM Self-contribution
City's cemetery (Orthodox and Muslim) according to the urban plan of Tetovo	Tetovo municipality and P.U.E Tetovo	2003–2004	3,000,000	Preparation of technical documentation	Donations from UNDP Budget of RM
Sewage for B. Kidrič Street, connected to the city's sewage system	P.E. Geoinzhenering	2003	105,000	Project and building license	USD 50,000
Sewage channel for JNA Street	P.E. Geoinzhenering	2003	24,000	Project and building license	
Road reconstruction for block 82	P.E. Geoinzhenering	2003–2005	300,000	Partially built, have building license	USD 30,000 during 2003
Layout for block 77	P.E. Geoinzhenering	2003–2005	115,000	Existing project, no building license	

Project (activity)	Implementing agency	Timeframe	Forecasted budget (USD)	Actual project status	Current and potential sources of finance
Sewage channel for 102 <sup>nd</sup> Street	P.E. Geoinzhenering	2003	5,000	Project and building license	
Sewage channel for V.S. Baro Street	P.E. Geoinzhenering	2003	120,000	Project and building license	
"Tetovo Newspaper"	Radio Tetova	2003	160,000	Publishing in bad condition and irregularly	

## NOTES

- <sup>1</sup> Aiming to bring decision-making closer to citizens, decentralization is “usually defined as the process of creation or strengthening (financially and legally) of subnational units of government, transfer of responsibilities for planning and management, and the raising and allocation of resources from the central government and its agencies to lower tiers of government” (Čapkova 2005).
- <sup>2</sup> Local economic development is “a process by which public, business and nongovernmental sector partners work collectively to create better conditions for economic growth and employment generation” in the local area or community (Swinburn et al. 2006).
- <sup>3</sup> The methodological approach is presented in Annex 1.
- <sup>4</sup> Macedonia as a whole is both a NUTS I and NUTS II region, whereas the eight planning regions are at the NUTS III level. The “old” 34 municipalities were NUTS IV level and the previous municipal structure of 123 municipalities is still NUTS V level, while activities are ongoing to approximate a NUTS V level for the new territorial division of 84 municipalities.
- <sup>5</sup> An overview of the LED strategic plans is presented in connection with the respective case studies in the annexes.
- <sup>6</sup> A comparative overview of the implementation framework (presenting the characteristics of the respective strategic plans and different provisions for implementation) is given in Annex 4.
- <sup>7</sup> The complete list of projects with their implementation status is given in the respective case studies (Annex 5, 6, and 7).
- <sup>8</sup> Numbers are for 2003–2005.
- <sup>9</sup> Implementation status for Bitola is presented in Annex 5.
- <sup>10</sup> The implementation status of the LED strategy in Kočani is presented in Annex 6.
- <sup>11</sup> The implementation status of the LED Strategy in the municipality of Tetovo is given in Annex 7.
- <sup>12</sup> The analysis included one project each from the first two goals, and all projects (in total) for achievement of the third goal.
- <sup>13</sup> Simple, Measurable, Achievable, Realistic, and Time-bound.
- <sup>14</sup> W.K. Kellogg Foundation (2004).

- <sup>15</sup> Andrew Young School of Policy Studies (Georgia State University), *Fiscal Decentralization in Transition Economies: Case Studies from the Balkans and Caucasus*, Bratislava, Slovakia. 2005.
- <sup>16</sup> The complete list of projects and their current implementation stage is given in the Annex 9.
- <sup>17</sup> Project status sheet is presented in the Annex 7.

# Optimizing the Economic Components of Local Development Strategic Plans in Moldova

*Maria Salabuga*

## ABSTRACT

Despite improvements in Moldova's economic performance since 2000, a brief macro-economic overview casts doubt on a number of "successes" achieved during this period. In 2005 Moldova's economy amounted to only 48 percent of its 1990 level. Even with an annual GDP growth rate of up to seven percent, the 1990 level will be achieved only by 2015. Additionally, some economic indicators testify to the increasing dependency of Moldova's economy on external factors, pointing out that recent economic growth is extremely vulnerable. The risk of a slowdown over the next several years is considerable.

The bottlenecks in Moldova's economic development are even more sizable in its territorial aspect. Current growth and development are overconcentrated in the capital, while urban areas outside Chișinău suffer steady decline, no longer offering essential support to surrounding villages. Citizens living outside Chișinău are pressed either to move to Chișinău or find work abroad, causing the economic abyss between Chișinău and the rest of Moldova to grow.

This situation is clearly not the result of an exogenous shock, but is endogenously linked to a core issue: Moldova lacks an adequate internal development process. Broadening the base of the development process is crucial; it is inextricably linked to the overriding challenge of accelerating economic growth and ensuring its quality and sustainability. To address this, both central and local governments must partner with businesses, civil society organizations, and donor agencies to identify the most appropriate interventions and widen participation to encompass all regions in the country's long-term development prospects.

This chapter identifies local economic development (LED) as a high priority area for immediate and middle-term action. Economic growth is not the exclusively the responsibility of national governments. While national policies are needed, they are not sufficient to achieve qualitative and sustainable economic growth. Secondly, decen-

tralization—*de facto* and *de jure*—is changing the traditional approach to planning and development from a “top-down” to a “bottom-up” model, putting greater pressure on local governments to create better conditions and improve quality of life.

Additionally, this chapter relies on key findings from evaluation of planning and implementation of local development strategic plans in Moldova over the past 5 years, with particular emphasis given to the implementation of local economic development components in such plans.

This chapter recognizes that local strategic planning and implementation capacity is far from adequate; there are a number of challenges to be addressed. However, some positive trends have emerged and there is an acute need to keep up momentum and to build on experience accumulated in recent years both locally and internationally.

To maximize this potential, this chapter puts forward a set of relatively simple but much neglected policy recommendations for local and central governments as well as the donor community.

## 1. INTRODUCTION

The quality and sustainability of Moldova’s economic growth is highly vulnerable, plagued by de-urbanization, de-industrialization, infrastructure deterioration, emigration and mass labor migration, expansion of poverty zones, and deepening of social inequality. Still, local economic development (LED) is underutilized as a means to encourage private sector development, generate employment, and alleviate poverty.

With the notable encouragement and assistance from international donor organizations, local development strategic plans that contained an LED component have been devised, but implementation has been fragmented, inconsistent, and uncoordinated, and, as a result, insufficient for local regeneration. Most of the country remains underdeveloped and excluded from the internal development process.

The reasons for such poor performance by local public officials in the implementation of LED components of strategic planning are varied. First, it is not easy for local public officials and local stakeholders to fully grasp the value and theoretical underpinnings of strategic planning, let alone to understand how to properly implement the priorities included in the plan. Second, in virtually all localities across Moldova that conducted strategic planning, participants focused on what they would like to see carried out in their community ideally, rather than what was institutionally and financially realistic.

Challenges have been and remain multiple. How to generate support for the process within the city hall and then, within a limited timeframe, how to institutionalize this support to ensure stakeholder commitment and participation? How to identify and agree on stakeholder representation? How to mobilize resources and coordinate the implementation agenda and generate the data, information, and level of analysis to

enable stakeholders to make strategic judgments? Nevertheless, some positive elements have emerged in practice. Still, obstacles and opportunities need to be identified to make room for further interventions.

Although public awareness in Moldova about the importance and potential positive impacts of LED is increasing, there has been little research conducted to date. This paper will attempt to fill this critical research gap by providing public officials, representatives of the business community, civil society leaders, and other national and international stakeholders with a comprehensive assessment of the implementation over the past five years of local development strategic plans in Moldova, with particular emphasis given to an assessment of the implementation of the local economic development components in such plans.

More specifically, within the framework of analyzing the implementation of the LED component of Moldovan local development strategic plans, this paper will perform the following:

- analyze progress in implementing the economic components of local development strategic plans;
- identify key factors leading to the success or failure of implementation;
- identify best and worst practices during the implementation stage of local economic development initiatives;
- make policy recommendations aimed at optimizing the prospects for successful LED implementation in the future.

This study analyzes both process and implementation, seeking to understand what is happening and why, as well as developing recommendations for change.

The primary research for this paper was carried out in two stages. The first stage consisted of the following:

- Comprehensive content analysis of local development strategic plans of 36 Moldovan cities and towns by strategic goals and economic components—both hard and soft. Results are displayed in Annexes 1–4.
- Interviews with mayors, local council members, city hall employees, representatives from the business and NGO communities, senior representatives from donor agencies, national consultants, and technical experts. The main goal of the interviews was to gain insights into the strategy-making and implementation processes that took place in various cities and towns. Interviews were usually ninety minutes. A general guide to the interviews is presented in Annex 5 and interviewees are listed in Annex 6.

The second stage was a survey carried out during May 11–22, 2006, based on a sample of mayors from 53 cities and towns,<sup>1</sup> out of which 45 responded. Data were processed by SPSS 12.0 and are expressed in absolute figures. The list of cities and towns



that participated in the survey and their geographic distribution are presented in Annex 7. The questionnaire and sample structures are presented in Annex 8.

It should be noted that ideally, private sector and civil society representatives would have been surveyed as well. However, due to time constraints, the survey was limited to mayors, based on the assumption that more than anyone else, it is local governments—and mayors in particular—who are ultimately responsible for implementation of strategic plans. Correspondingly, local government officials play a key role as interlocutors to ensure a business-friendly environment, to facilitate and support public-private partnerships, and to improve the economic conditions of their communities.

It is also important to mention that due to the lack of records on local strategic planning, implementation monitoring, and evaluation, this chapter takes as the basis for further analysis the number and types of projects reported in the questionnaires by mayors themselves. We must acknowledge that some projects may have been implemented as laid out in the local strategic plans, but for a variety of reasons, were not mentioned in the questionnaire; as well, there might have been projects reported as implemented that were not necessarily part of strategic plans.

Thus, the conclusions drawn in this chapter are based on information that was publicly accessible or given voluntarily. It is entirely possible that additional information that the author did not have access to at the time of writing could affect some aspects of the analysis, conclusions, and recommendations.

Finally, it should be noted that whereas the concept of LED is indeed “local” in nature, the recommendations of this chapter are general; therefore, any recommendations should be understood and implemented with the implicit assumption that local conditions and the opinions of local stakeholders in the communities in question will always remain paramount when determining when and how to initiate LED.

The following section offers a working definition of local economic development and identifies its main characteristics. The third and fourth sections overview and highlight some limiting factors in both macro and regional economic environment. Section five identifies the reasons as for the poor track records in implementation of local development strategic plans, with a special emphasis on LED-specific initiatives. The finally section discusses policy options and puts forward a set of policy recommendations for local and national governments, as well as donor agencies, to promote successful implementation of sustainable LED initiatives in the future.

## 2. WHAT IS LOCAL ECONOMIC DEVELOPMENT?

For the purposes of this chapter, a working definition of local economic development (LED) must be outlined, with its main characteristics identified. A few definitions of LED from different sources are listed below:

Local Economic Development is a process by which local government and/or community-based groups manage their existing resources and enter into new partnership arrangements with the private sector, or with each other, to create new jobs and stimulate economic activity in a well-defined economic zone (Blakely 1994).

Local Economic Development is the process by which public, business, and nongovernmental sector partners work collectively to create better conditions for economic growth and employment generation. The aim is to improve the quality of life for all (World Bank 2004).

Local Economic Development is a partnership between local government, the business community, and NGOs. Its objectives are to stimulate investments that will promote sustained high growth in a local community. LED focuses on the region's potential and identifies specifically what local stakeholders can and need to do to ensure their local communities reach its potential (USAID 1997).

According to these definitions, LED is a process with the following goals:

- strengthened public-private partnerships
- improved business environment
- job creation
- enhanced local economic competitiveness
- mobilization and efficient use of local resources
- improved living conditions for all.

Often the terms local economic development and local development are used interchangeably (OSI 2005). Undoubtedly, there is a link between the two; however, some distinctions need to be made. While local development usually addresses such issues as environment, education, culture, health, public safety, etc., local economic development (LED) focuses on the twin goals of establishing the structural conditions that will enable private sector development to flourish, and creating employment opportunities.

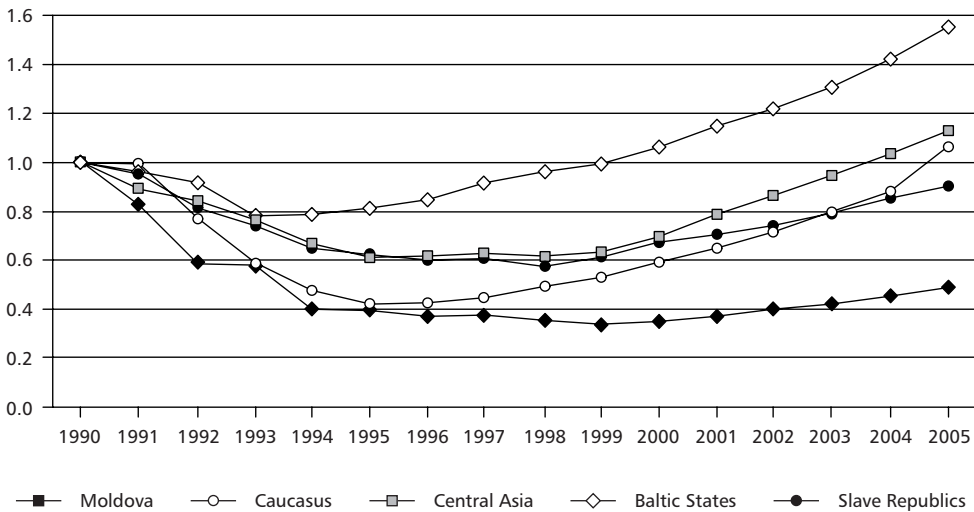
Thus, for the purpose of this policy paper, LED will be defined as *a process by which local governments, private business, and community groups work together to create jobs and a favorable business environment.*

### 3. OVERVIEW OF ECONOMIC GROWTH

Despite the fact that current statistics reveal a number of encouraging upward trends in Moldova's economic development, including a GDP cumulative growth of 43 per-

cent between 2000 and 2005, the “discomforting graph” (see Figure 1) shows that the size of Moldova’s economy represents only 48 percent of its level in 1990. In addition, Moldova has registered the worst economic performance of all the ex-Soviet republics (Culiuc 2005).

*Figure 1.*  
Economic Growth in Moldova and Regions of  
Former Soviet Control during Transition



Source: Economist Intelligence Unit Data Service.

The quality and sustainability of economic growth raises serious concerns even if the above graph is ignored. The most recent country reports on economic performance of both international (World Bank 2005) and domestic (Expert Grup 2006) organizations highlight that Moldova’s economic and social landscape is increasingly being shaped by large-scale labor migration and the subsequent foreign remittances sent to relatives in Moldova from such migrants. According to these reports, 25 percent of Moldova’s economically active population has emigrated to seek job opportunities abroad.<sup>2</sup> The total officially estimated gross inflows of workers’ remittances reached almost 25 percent of GDP,<sup>3</sup> up from five percent of GDP in 1996. The percentage that foreign remittances are contributing to overall GDP in Moldova is very large compared to most other countries, including the countries of the Commonwealth of Independent States (CIS) and Central and Eastern Europe (CEE), where remittances significantly exceed five percent of GDP in only a few countries.

Workers' remittances have played an instrumental role in propelling growth in recent years through their effect on consumption (IMF 2005), but only marginal amounts of these flows—up to seven percent (WB 2005)—are being used to finance business investment.<sup>4</sup> Clearly, had the investment environment been more favorable, large inflows of remittances could have been used to finance investment, create jobs, and make it more attractive for Moldovans to remain in the country. For most of the working-age population in Moldova at the moment, however, emigration remains more attractive.<sup>5</sup>

The number of people willing to leave Moldova remains high. According to an opinion poll, if given the choice, 25 percent of Moldovans would migrate permanently and another 30 percent would migrate temporarily. This inclination is particularly strong among people below 30 years of age: 76 percent would leave Moldova and of these 43 percent would migrate permanently (IRIBS 2004). Studies reveal that among the most frequently mentioned reasons for migration are insufficient money to meet basic needs, lack of decent housing, joblessness, poorly paid jobs, and, among young people, a decisive factor is the lack of “life essentials” to raise a family (CBS–AXA 2005). Thus, migration is likely to continue unless economic conditions change.

Even more alarming is the fact that the high level of remittances along with a number of macro-economic indicators such as import growth (77.5 percent of GDP), trade balance deficit (39 percent of GDP), and the current account deficit (9.8 percent of GDP) testify to a higher dependency of economic growth and the overall economic situation on external rather than internal factors (IMF 2005). Under these circumstances, with deficient economic policies (Prohnițchi 2004) and very limited public investment (estimated at about two percent of GDP),<sup>6</sup> Moldova's economic situation is becoming increasingly vulnerable, and the prospect of economic growth is under immense threat if no immediate actions are taken.

No less important is the general dissatisfaction with economic conditions. According to an online survey conducted by the Opinia Independent Service of Sociology and Information, approximately 70 percent of the population described the present socio-economic situation in Moldova as “bad” (42.2 percent) or “very bad” (28.2 percent) (Basa Press 2006). Furthermore, dissatisfaction is likely to stay high in the coming years, as even under an annual GDP growth rate of seven percent, the 1990 level will be achieved only by 2015.

The macroeconomic context described above is by no means comprehensive. It reflects instead some bottlenecks and sluggishness in Moldova's economic development. It also suggests that factors that have been instrumental in fueling the growth in recent years may not endure, suggesting that unless proper action is taken, there is an imminent risk that Moldova's economic growth rate will decrease, signaling another troubled period.<sup>7</sup>

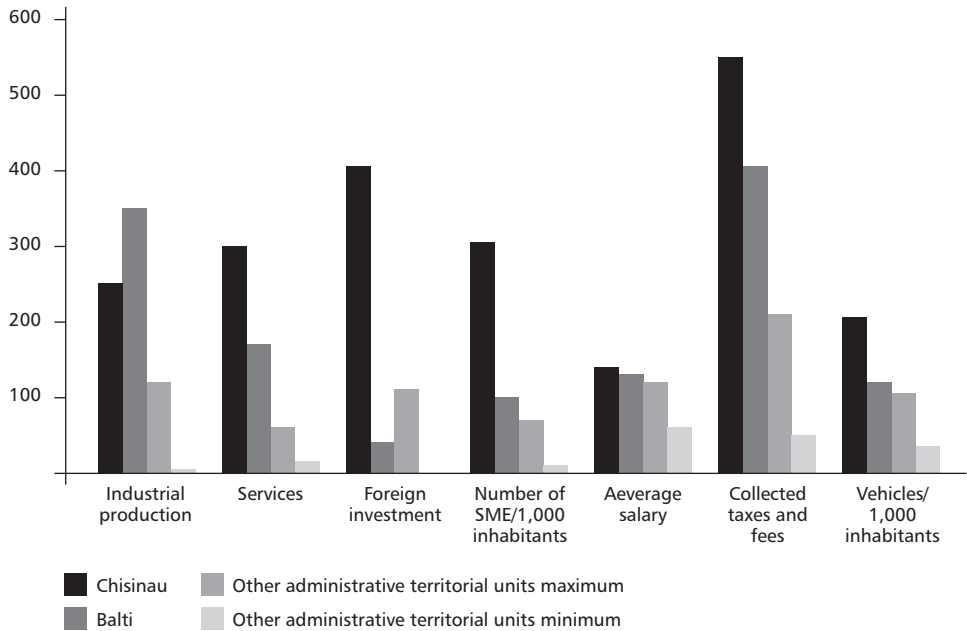
However, the situation cannot be effectively rectified through macroeconomic policies alone, because “changes in national economies only happen when the economies

of cities and their regions change” (Jacobs 1984). Clearly, for sustained and qualitative economic growth, a shift in the economic development paradigm is desperately needed.

4. THE TERRITORIAL DIMENSION OF ECONOMIC DEVELOPMENT

The existence of a wide range of fundamental economic problems is even more sizable in Moldova’s territorial profile. A startling contrast between the social and economic development of Chişinău and local areas is shocking proof of this.

Figure 2.  
Discrepancies among Administrative Territorial Units



Clearly, the segregation between Chişinău and the rest of the country has reached alarming proportions. According to a study, Chişinău alone accounts for 249 percent of the national average of industrial production per inhabitant, while the Soldanesti *rayon* accounts for only two percent. The volume of foreign investment in Chişinău is USD 666 while for ten *rayons*—less than one USD. The collected taxes and fees per inhabitant in Chişinău constitutes 550 percent, while in other *rayons* it barely reaches 70 percent (Galer and Roscovan 2005). Some economic activity is also evident in Bălţi, Moldova’s second largest city, while the rest of the cities and towns may only hope to be selected for investment and/or business activities.

These poor showings illustrate the “megacephaly” of Moldova’s territorial development with a huge difference between extremes (Ivașcenco 2005). Because it affects population income, labor force occupation, and living standards, regional urban populations dropped by 6.4 percent over the last decade (Gudîm 2005), with residents leaving en masse to work abroad, or at best, to look for better opportunities in Chișinău.

In recent years, within the framework of donor programs, there have been attempts to improve the conditions of local communities via devising and implementing local development strategic plans. Although some positive trends emerged, for a whole host of reasons (described in the following section) they have not yielded the anticipated results. By any acceptable standard, a significant part of the country remains underdeveloped and severely affects the overall development of the country.

The Economic Growth and Poverty Reduction Strategy (EGPRS) acknowledged the fact that “during the transition period insufficient attention was paid to regional aspects of reform. In most cases policies were essentially macro-economic. No mechanisms were set up to promote the institutional and legal framework necessary for the development of regional and local self-governance” (GOM 2006). Reduction of disparities and promotion of a balanced and sustainable social and economic development across the country through a well-planned regional policy were defined as main priorities. However, the Annual Evaluation Report on EGPRS concluded that progress registered to date in this area is less than optimal and no concrete actions have yet been taken.

Today, regional development policy focuses on defining the number of regions and creating mechanisms for allocation of funds. However, there is no evidence, other than inflated hopes for European funding, that devising a policy dealing with regional development in Moldova will result in greater investment and economic growth. Policy analysts maintain that under the current circumstances—scarcity of own financial resources and lack of regional leaders qualified to efficiently implement regional development efforts—the prospects for an effective regional development policy in Moldova are not high (Ivașcenco 2006). Therefore, the gap on a number of levels between Chișinău and local areas is expected to increase even further unless additional solutions for both immediate and mid-term timeframes are worked out.

This is not intended by any means to deny the importance of regional development; on the contrary, it suggests that for regional development to be effective, some preparatory work should be done. Devising well-thought-out local strategies with a strong LED focus, capitalizing on the strengths and opportunities in each location, attracting highly qualified human resources to support the process, and channeling limited available resources towards implementation would create a better business environment and new employment possibilities in currently depressed areas while leaving them better prepared to participate in regional development efforts.

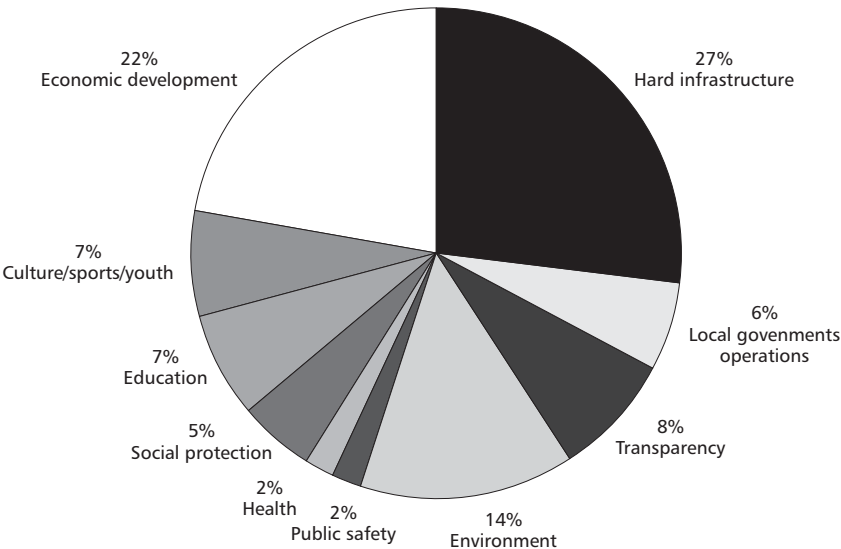
## 5. IMPLEMENTATION OF STRATEGIC PLANS—FAR FROM EFFECTIVE

### 5.1 Moving from Central to Local Development Planning

In Moldova, the shift from an overly centralized and exclusively top-down planning system to a genuinely local strategic planning process—originating from a vision of long-term development and defined through a participatory process—proved to be a great challenge. There is a simple historical reason for this: the economic and social aspects of local development had not been shaped by local bodies for decades. Therefore, the concept of local strategic planning had to get beyond 70 years of ill-conceived and ineffective centralized planning and a decade of painful transition.

As in other countries across the region Moldovan local governments lacked the capacity to organize a local strategic planning process. External assistance was required. Starting in 2000, on the initiative of international donor agencies, local governments were provided with opportunities to put the principles of local strategic planning into practice and construct their own strategic plans via a broad and inclusive participatory process (Annex 1).

*Figure 3.*  
Local Development Strategic Plans by Objective



The local strategic plans that resulted from these early efforts were general development frameworks that included a wide range of areas such as local economic development and infrastructure improvement, environment enhancement and beautification, public safety and social protection, housing, culture, youth, local government operations, etc. (Figure A2.3)—very frequently spending on different issues was labeled as serving local economic development.

## 5.2 Pitfalls in the First Strategic Planning Exercises

Analysis of the strategic planning process in 36 Moldovan cities and towns sheds light on key pitfalls in these initiatives that ultimately reflect negatively on the initial planning and subsequent implementation stages.

First, the strategic planning process was shaped by the approach that international donors possessed.<sup>8</sup> Often, these models and methodologies were designed well in advance and included a predetermined set of steps and activities as well as a timeframe (Annex 9).

Specialists in strategic planning at the sub-national level maintain that while the development of a logical framework makes perfect sense from the project management standpoint, in practice it allows little flexibility or consideration of local conditions (Pallai 2006). As one of the strategic planning consultants witnessed during the interview, communities engaged in the strategic planning process differed widely in terms of municipal leadership and management, maturity of the local public community and their involvement level in the decision making process, volume and quality of available resources, community commitment and interest in the process, etc. Sometimes a five-day strategic planning workshop was enough for stakeholders to come to a consensus regarding their vision, strategic goals, and objectives. More often, however, this was not the case. In any event, strategic planning workshop facilitators had to move things forward and make sure that a plan was produced and that deadlines were met. At the same time, the consultant noted that although there are standard methods and supporting guidelines, more flexible approaches should be used in the future in order to more effectively address the realities, needs, and priorities of each community.

Of special note is the fact that little or no understanding of the specific political, social, and economic landscape in Moldova was taken into consideration when the methodology for strategic planning was devised and subsequently implemented. Donors demonstrated a lack of planning foresight in the realization of local strategic plans that compromised the possibility of attaining a successful outcome before the process even began.

Second, the assessment of the local environment was in almost all instances inadequate, because it was based on very limited local data or, at best, on a set of *rayon*



aggregates. Although participants agreed that local development plans should give priority to economic development, the vast majority of plans neither analyzed the economic base nor made appropriate projections for potential future economic activity. As a result, development prospects were merely based on what was seen as likely. SWOT analyses were not specific and fact-based, and as a result, many economic threats and opportunities were not discussed and remained unknown. Subsequently, when strategic plans were devised, these factors were not considered and were unaddressed in local development plans. Furthermore, this glaring deficiency has not been subsequently fixed or even mentioned, neither by a implementing donor agency nor by the community representatives who participated in the strategic planning process.

Third, although creating a community vision with clearly defined goals and objectives was an absolute novelty for a majority of participating communities, there was very little if any explanation given to participants in the strategic planning process as to why strategic planning was important in the first place or how it should be done. As a result, local development strategic plans are akin to a comprehensive wish list of potential projects that community leaders would like to see implemented, rather than a well-defined vision based on specific, realistic, and attainable objectives supported by innovative development and investment projects. Prioritization is a rare exception, while monitoring and evaluation was hardly considered at all. Thus, local development strategic plans were inherently flawed from the outset.

Nor were there any follow-up activities performed in order to build up implementation capacity at the local level. Being insufficiently trained, local governments as well as stakeholders remained uncertain of their roles and responsibilities with respect to designing, implementing, monitoring and constantly updating and improving mid- and long-term strategic plans.

Instead, some capacity was built at the national level. At the initial stage a pool of national consultants was trained to serve as facilitators in the strategic planning process by the Training Resources Group (TRG) and directly employed by the USAID Local Government Reform Project. Later on, in order to create a cost-effective approach and ensure the long-term sustainability of a local strategic planning process for local governments in Moldova, a request-for-proposals process was considered that would result in subcontracting local institutions and organizations. Consequently, the Association of Mayors and Local Communities was subcontracted in 2003 and the Business Consulting Institute in 2005 and 2006. There are other organizations providing strategic planning assistance on a grant-by-grant basis. However, looking beyond the timeframe of donor funding, the likelihood that local governments, perhaps with a few exceptions, would directly subcontract these organizations/institutions for the provision of strategic planning services is fairly low.

Fourth, although stakeholder participation was key and an essential requirement by donors, the actual degree of participation was limited. Because donors usually operate on

short deadlines, local leadership was given little time to identify, mobilize, and involve key groups of stakeholders in the planning process, let alone maintain their continuous and meaningful participation. In many cases, participation in the strategic planning workshops was limited to city hall staff. Even when opportunity for participation was extended to local community leaders, the review of participant lists revealed that local governments called upon easily reached actors such as school principals, directors of child care centers, medical units, water utilities or housing enterprises, and less frequently representatives of private business or NGOs. Public hearings on strategic plan drafts—a citizen participation tool introduced along with strategic planning—or citizens’ forums were thought to compensate for limited participation during strategy making. However, in a country with little or even no tradition of civic participation, citizen input was limited in these forums as well.

Finally, rather than focusing on a limited number of issues that communities could realistically address within their financial means, initial strategic planning efforts in Moldova were an attempt to secure a comprehensive approach to resolving any and all problems that arose in local communities during the first decade of transition. No attention was paid during this process to the realistic ability of communities to address these issues through strategic planning. Instead, donor agencies decided it would be better to let communities “dream” that the strategic plan would lead to specific and actual subsequent resolutions of such problems as residents indicated.

In sum, due to the unrealistic approach that donor agencies had toward strategic planning, they accomplished two things. First, they raised false expectations as to what local citizens could and should expect to result from the strategic planning process. Second, and subsequently, they caused great disillusionment and disappointment in local citizens when such expectations were not met, dramatically decreasing the level of faith in the ability of local public officials to effectively address their problems. This includes, but is not limited to, aspects of various local strategic plans that possessed LED components.

Within this context, it should also be noted that the original planning efforts in Moldova were also marked by the new nationwide multi-year initiative entitled “The Moldovan Local Community” launched on October 15, 2004. A presidential decree required all communities across Moldova to develop in a very brief period of time (about three weeks) their own community strategic plans for the period 2005–2015. Strict centralized directives regarding the process and the format of community plans coupled with completely unrealistic time limits and the lack of transparency and citizen participation were fatal to this process. Undoubtedly, the centrally mandating of quick solutions was a symptom of the Soviet legacy.

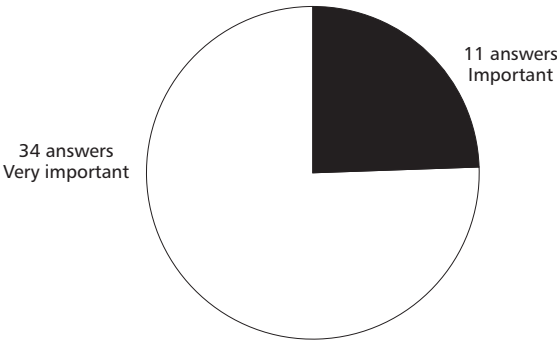
Officially, this new initiative was declared an intense effort to improve life at the community level during the period 2005–2015 and billed at approximately MDL 45 billion (approximately USD 3.5 billion)—equivalent to six annual budgets. In reality,

however, it seemed to be a mix of at least two influences: (i) a strong need to demonstrate proactivity in addressing the poverty identified in the then recently enacted EGPAS and (ii) an attempt to achieve “blanket eligibility” for project funding from donors that required the beneficiary community to possess a strategic plan. At the very least, however, the Moldovan government recognized the value of local strategic planning for local development. Many local governments that developed plans with donor support were better prepared for this new decree and used their already existing local strategic plans in drafting the government required projections.

All of this notwithstanding, the importance of the local development strategic planning was recognized in some quarters as being useful. Sometimes, the expansion of this process was fueled by a consciously perceived need to create a community vision and plan aimed at its attainment. More frequently, community leaders played the “donor game” and agreed to participate in the strategic planning process because they saw it as a means to achieve the end of donor funding in some form.

Regardless of the incentive, five years after its inception, there is increased awareness of the importance of strategic planning as a tool for improving local government operations: 34 out of the 45 local public officials surveyed regarded strategic planning as very important to local development. Eleven considered it important. No negative answers were given (see Figure 4).

*Figure 4.*  
How Important Is the Local Development Strategic Plan?



Meanwhile, local consultants and policy analysts maintain that although local strategic planning in Moldova is in its infancy, the benefits of the initial strategic planning efforts are multifold and resulted in a better understanding of critical problems, identification of key “pillars” of local development, forming a collective vision and building consensus around community priorities, sharing responsibility between local government and community, establishing partnerships in local development, introducing

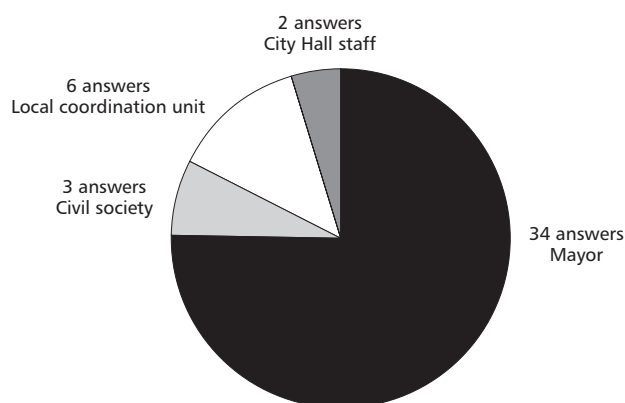
a project-based approach and citizens' participation tools. However, there is a growing sense, particularly among this group of respondents, that significant improvement in content and implementation is needed.

### 5.3 Limits of Institutional Arrangements

Strategies have little or no value unless they are implemented. However, implementation is not easy; it is much more challenging than merely drafting a plan.

The establishment of an institutional arrangement to support the implementation process is one of the main conditions for efficient and effective implementation. However, the questionnaire found that only six cities or towns had established a formal unit to implement and monitor their local development strategic plans, while in the majority of towns (34) this was the mayor's responsibility (Figure 5). These arrangements correspond closely to the design of donors' technical assistance program.

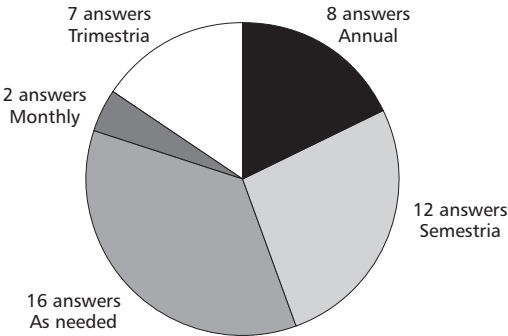
*Figure 5.*  
Who Is Responsible for Implementation of Local Development Plan?



According to the USAID approach,<sup>9</sup> no structure was set up from the outset. This was done under the assumption that after the planning phase, local communities would take over the ownership of the process and continue with implementation. Mayors were called upon to take the lead and ensure that all efforts and resources were mobilized and channeled for the implementation of local development strategic plans, while stakeholders were advised to create an implementation committee to support and monitor the process. Although there are examples of mayors who showed a keen interest in the process, clearly this was not enough and proved not to be the most effective way forward.

In many cases, mayors failed to effectively follow-through with the implementation aspects of strategic planning and transmit their consistent support down to the “front line” implementers. According to the questionnaire, only two mayors called meetings to discuss progress on strategy implementation monthly; seven once every three months; 12 once a semester; eight annually, and 16 as needed (Figure 6).

*Figure 6.*  
How Often Do You Convene Meetings to Discuss Progress  
Made in the Strategic Plan Implementation?



Additionally, city hall staff was reluctant to accept additional assignments on top of their regular workload while stakeholders groups were dismantled once the strategies were produced. As a result, many communities failed to achieve the critical mass to turn implementation into an ongoing, well-managed, and integrated process as opposed to a one-time activity whose impetus was provided by an international donor organization.

The failure to fully institutionalize the strategic planning and implementation process does not indicate the lack of need at the grassroots level for strategic planning; rather, it reflects a lack of vision and integrated approach coupled with insufficient funding at the donor level. Their timetable allowed only a few months of participation and intermittent assistance and consultation, which proved to be insufficient to nurture the process within each city/town and served as a strong incentive against innovative and proactive behavior.

The UNDP approach<sup>10</sup> to strategic planning was a bit different. A year after the first plan was developed and sub-optimal results were registered, UNDP established Local Coordination Units to support the efforts made by local governments and local stakeholders in the implementation process. It usually consisted of three full-time staff from the respective city/town who participated in the planning process. The

main responsibilities of these units were: (i) to update the strategy action plan; (ii) to monitor the strategy implementation process; (iii) to promote effective partnerships and strengthen collaborative efforts of major stakeholders/groups during implementation; (iv) to promote a continuous dialogue between local governments and citizens. Because they were better trained and provided with access to modern technologies, these units were more knowledgeable, more skillful and ultimately more efficient in carrying out these activities. According to the Capacity Assessment Report of the Institute for Urban Development, the donor-funded Local Coordination Units have been very instrumental in breaking the ice and taking the first projects off the ground. These “early wins” built momentum, trust, and enthusiasm.

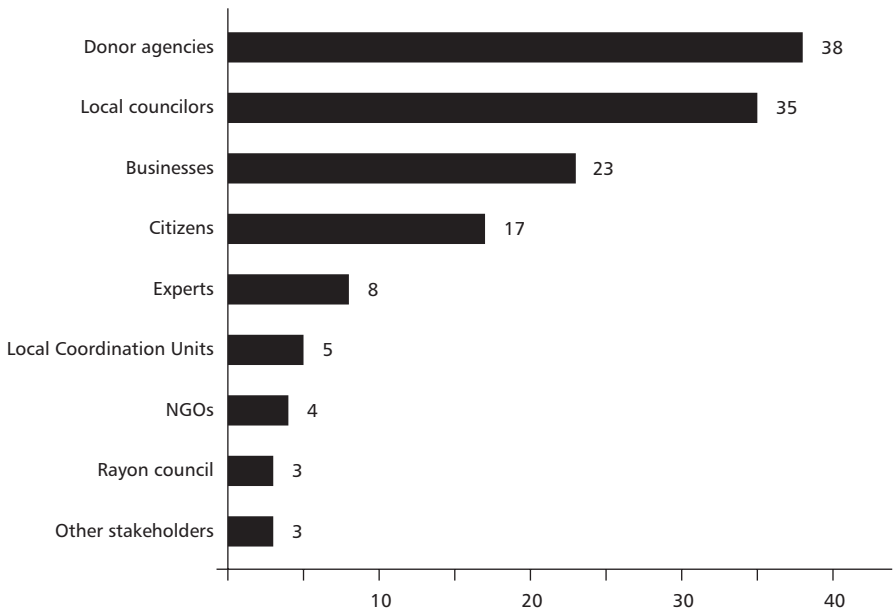
Some of the Local Coordination Units were structured around strong leaders. While effective leadership is essential for moving ambitious agendas forward, there are cases where these leaders were perceived as the sole “owners” of the process with exclusive right to decide on resource allocation, projects to be implemented, and stakeholders to be invited. This not only facilitated biased project selection by power groups, decreasing the need for further debate, but also alienated many active stakeholders from the process. Some stakeholders disliked the leadership attitude, were unsatisfied with the limited opportunities for real participation in decision-making process, and dropped out early in the process.

Additionally, being the creations of UNDP and reliant on UNDP for continued funding and support, these groups were promoting an agenda and image rather than attempting to create a real sense of local ownership over the process. Citizens often refer to the Local Agenda Office of Ungheni, Cahul, or Lapusna, as opposed to the strategic plans of these cities. In other cases, local coordinating units failed to secure local authorities’ support, and therefore were perceived as outsiders and competitors with local authorities instead of partners. As a result, they spurred animosity and distrust instead of synergy and mobilization.

Apart from this, although significant capacity was built during recent years, sustainability of these units beyond donor funding is questionable and depends on many variables. It would be interesting to monitor the process of institutionalization of these units, but as the process is still underway this is beyond the scope of this study. One thing is obvious: any approach is more likely to succeed if the city is already focused on improving local governance and committed to raising the resources, including funds, needed to carry out the major interventions outlined in the strategies.

Nevertheless, the questionnaire revealed that donor agencies have a large degree of influence on the process (Figure 7). This is more obvious in cities/town that implemented five or more projects. This is mainly because donors introduced and promoted the local development strategic planning, but also because local communities still perceive international donors as the main source of funding for strategic plan creation and implementation (Figure 14).

*Figure 7.*  
Whose Opinions Do You Take into Account When Taking Decisions Related to the Implementation of Your Local Development Plan?



Respondents from cities/towns noted that donor support is important in helping local governments move the strategic planning process forward and that constant assistance is needed over longer periods of time.

Despite of growing importance of local governments for a host of crucial issues, donor assistance remains modest in scale and impact. Although the total budget numbers appear large at first glance (Annex 12), they are small in relation to the magnitude of problems localities face. At the same time, closing-out projects that introduced local strategic planning at the time when real implementation is only starting will not only cause the whole process to lose momentum, but will create uncertainty and disillusionment.

Meanwhile, there is a general consensus among local experts that donor programs lack an integrated vision and clear strategy for assistance. They expressed the perception that even when such strategies exist they are developed in faraway offices, often based on a “one size fits all” approach that lacks a sense of local realities. It is not uncommon for donor programs to address symptoms rather than the roots of problems. But even when donors recognize the need to adjust to local conditions and extend their assistance in badly needed areas, they have little or no flexibility in doing so.

At the same time, local specialists contest local governments' role as loyal and passive recipients in relationships with donors. They emphasized that the absence of real cooperation among local governments is a major setback in the development process, and call for better capacity to proactively approach donors, speak out for their communities, and select the best trajectories of development interventions on their own.

Advocacy and lobby opportunities in dealing with the central government seem to have been underused as well. There are no efficient vehicles for facilitating advocacy work as usually real communication and cooperation only takes place via political parties. These groups expressed the need to consolidate mayors' voices into a single strong association<sup>11</sup> that can develop efficient cooperative relationships with the central government as well as donor organizations by representing and defending their interest.

According to the same questionnaire, local councilors have almost an equal say. Obviously, political support is needed to officially approve local development plans, to accept priority projects, and to subsequently allocate resources critical for their successful implementation. However, the evidence from interviews revealed some additional underlying problems with respect to strategic plan implementation. First, local councilors have limited or no experience in local development. As one city mayor put it, "Many local councilors have a very limited understanding of development issues, which negatively affects decision-making process. While considering city priorities, they frequently get stuck in minutiae, waste time, and fail to abstract themselves from the solution of minor issues that concern their personal or political party interests." Additionally, it was noted that a number of city council members are active in the implementation process; they hold meetings with stakeholders and citizens and expound the need to participate in local development by resorting to fund management or lobbying. Conversely, this applies to very few officials. In most cases they are inert and passive.

The changing role of local council members as a result of elections and transition from "old" to "new" leadership is another challenge with respect to strategic plan implementation. Usually, many local councilors usher in different agendas that conflict with the existing projects; it takes significant time (up to six months or more) to convince the new leadership to buy into the projects and to earn the confidence of those with whom they work. A high level official witnessed that in this "transition" period they usually work with three to four council members who are from previous groups and easily buy their message just to make sure that they secure the right number of votes needed to support a project and get funding. While this worked in certain cases quite well, it may end up spurring animosities, building walls instead of bridges.

In general, the capacity to mobilize local resources to ensure successful strategic plan implementation was highly overestimated. It takes time to build participatory approaches and consensus, especially where such approaches are not part of the local culture. Experience has shown that it took a year, sometimes two, to move from formulation to implementation. Although, in many cases, local governments, citizens, and businesses



have improved their awareness of the need to get involved in local development initiatives, it is still extremely hard to prove the benefits of a participatory approach. Unfortunately, stakeholders may become engaged in the process only for the time required to solve an issue of personal concern. So, when resources are available, local governments usually direct them towards “visible” projects with an immediate and direct impact. According to mayors this is the best vehicle to facilitate a stakeholder “buy-in.”

## 5.4 Measuring Progress of Early Implementation Efforts

With the recognized difficulties notwithstanding, some progress, although very modest, was registered. To date, some 208 projects were reported as implemented, of which seven cities/towns implemented over 10 projects; 17 between five and 10. Nineteen cities/towns implemented up to five projects, while two communities with plans developed only in 2005 implemented none. A detailed list of implemented projects is presented in Annex 10.

Understandably, with deteriorated municipal infrastructure and declining municipal services, the types of most frequently implemented small-scale projects are the following: construction/extension of water, gas, and heating supply systems, road repair, solid waste management, environmental enhancements, repairs of schools, kindergartens, and other public facilities. Rehabilitation centers for old people, a youth resource center, and child guidance and family centers were also completed.

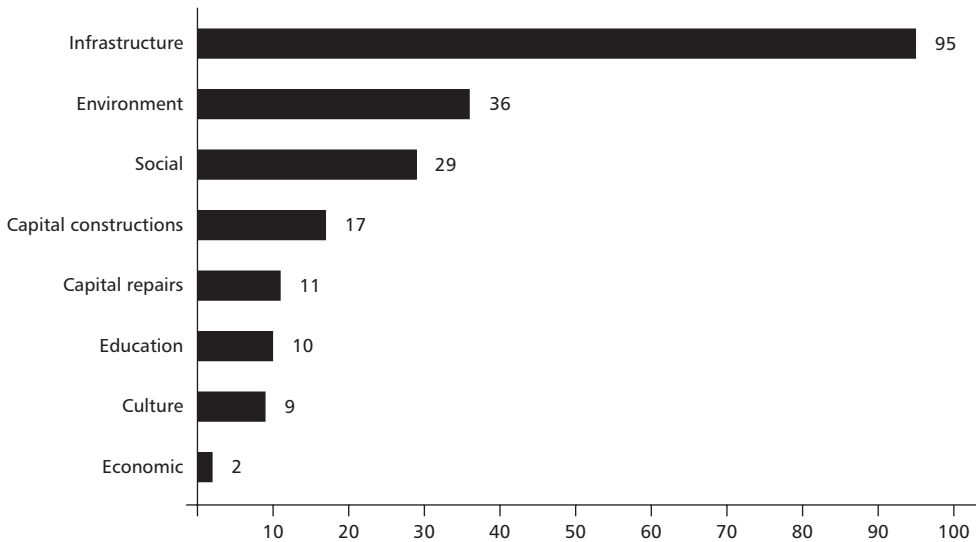
Whereas strategies are just starting to being implemented, one thing that stands out in this admittedly incomplete data is the disproportionate number of hard and soft infrastructure projects (95 projects vs. two), while soft local economic development projects are not named among implementation priorities (Figure 8).

Additionally, while project design and implementation require significant effort, most of the projects are limited in scope and address short-term necessities rather than attempting to solve long-term issues that would be much more expensive and technically and financially much more difficult to address. This is not to diminish the value of the accomplished projects; on the contrary, it is to emphasize that under current constraints all projects require much more effort and attention than projects of similar scale and complexity in western countries. Challenges are primarily technical, organizational, and financial, and are partly addressed by donors who provide financial support, but also technical assistance and on-site consultancy. At this stage, many of these projects are co-managed, co-monitored, and co-inspected.

Within this context, it should be noted that experience from the implementation of these initial local development projects clearly shows that there is a need for a comprehensive approach to building capacity at the local level for the project development, implementation, monitoring, and evaluation, as well as maintenance of the created

assets in order for such interventions to be effective and sustainable. Equally, capacity building should not be planned in relation to a single development project or program in isolation, but beyond the duration of individual projects and targeted for all requirements of local government in the immediate as well as more distant future.

*Figure 8.*  
Field of Implemented Projects



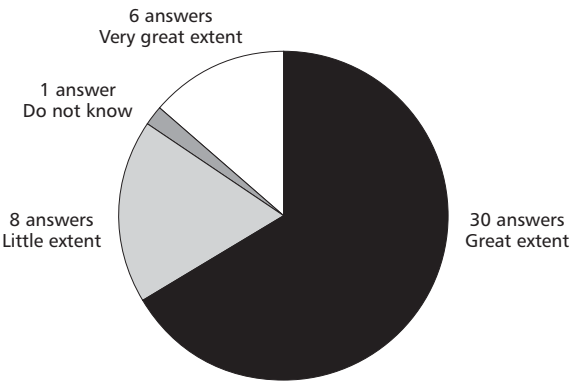
Another problem that marks the inefficiency of early implementation efforts is the lack of a monitoring and evaluation (M&E) system. Accordingly, there were virtually no cases registered where local governments were able to provide timely, relevant, and good quality information on the progress made in implementing local development strategic plans, let alone the impact they had upon the welfare of their communities.

Annual reports are often the only source of information about implementation progress, and they present a summary of general observations rather than a systematic and thorough analysis. Moreover, monitoring is perceived as an obligation imposed from the outside. Local governments collect information to meet the requirements of donors and/or to report to the central government and very rarely to citizens. These reports are designed to present “success stories” and do not usually provide accurate information about implementation progress, nor do they include what had not been done and why. Additionally, these reports are performed by a limited number of specialists, and since it is usually the same people who were involved in strategic plan design and subsequent implementation, it is not likely that they will criticize their own work in any harsh terms.

Inadequate understanding of M&E creates delays in its application, while lack of M&E capacity results in poor and irrelevant information that ignores project outreach, goals, and impact, and does not support informed local decisions. In addition, unclear progress and performance indicators not only lead to limited accountability, but also makes it difficult to distinguish between success and failure. Ultimately, if one cannot see success, it probably means failure.

On a final note, the net effect of small but visible incremental changes is sizable at the local level. With a community center unrepaired since 1972 or a garbage truck last replaced in 1987, followed by a post-independence decade of non-investment in any form at the local level, these first efforts have made a significant difference. According to the questionnaire, six respondents believe that implemented projects improved the life of their communities “to a very great extent” while another 30 responded “to a great extent.” Still, a sense of dissatisfaction is developing. Eight respondents said that implemented projects changed the life of their communities “little” (Figure 9). This feeling is shared not only by cities/towns that implemented few projects, but also by those who are more advanced in the process. Interviewees unanimously agreed that what was done was just the first step in a long journey and there is an acute need to build on accumulated experience and expand and intensify the implementation process.

*Figure 9.*  
To What Extent Do You Feel the Implemented Projects Have Changed Life  
in Your Town/City?



### 5.5 What Hampers the Implementation Process?

The importance of local development and the needs of local governments were ignored or, at best, not seriously considered on their own merits, but only in the context of

political gain. Given these circumstances, local government reforms incurred frequent changes and modifications, producing nothing but four distinct generations of reforms (one every four years!). This negatively affected local government operations and, ultimately, local development.

The most recent change took place in 2001 when the Law on Territorial-Administrative Structure abolished the system of 10 *judets*, Chişinău municipality, and the territorial-administrative unit of Gagauzia as established in 1998, and replaced them with 32 *rayons*, Bălţi and Chişinău municipalities, and the autonomous territorial-administrative unit of Gagauzia. By lowering the threshold for establishing an administrative unit from 2,500 to 1,500 inhabitants, the number of first-tier governments increased from 43 cities/towns and 593 villages to 52 cities/towns and 847 villages (Annex 11). This law was followed by a series of modifications enacted in March 2003 by the Law on Local Public Administration, which basically reversed the decentralization reform of 1998.<sup>12</sup>

It should be noted that all of this had a great influence on the implementation of strategic planning initiatives at the local level. Evidence from the interviews showed that each change to the administrative system required public officials to “relearn” hierarchical relationships and to meet with overseeing bodies and agencies to discuss various issues. In addition to taking up local public officials’ time and pulling their focus from issues that matter to citizens in their communities, it has also lowered morale.

Apart from this, the most recent Council of Europe Monitoring Report concluded that there is an evident lack of financial and administrative autonomy for local governments in Moldova. Local governments are denied decision-making powers regarding their own administrative structure and are bound by demanding delegated responsibilities and are thus more dependent than ever on central authorities. The distribution of responsibilities between different tiers of government is deconcentrated, not, in fact, decentralized (CoE 2005).

Within this context, it is not surprising that lack of funding, understaffing of city halls, and the passive attitude of implementers are the main reasons for the modesty of the results in implementing local development plans (Figure 10).

While estimated costs vary greatly from community to community and depend on size, needs, and vision,<sup>13</sup> a very simple exercise illustrates the unrealistic level of financial resources needed to consistently support the successful implementation of local development plans. Experts estimate that given current annual local budgets, investment needs exceed local government capacities by eight to 12 times (Guţuţui 2005).

The most recent studies highlight that under the current system local governments in Moldova enjoy very limited if any financial autonomy (NF 2005). Local government expenditures amount to some 10 percent of GDP and their resources derive mainly from transfers from the central government and *rayons*,<sup>14</sup> while local taxes, although they exist, can hardly be treated at this stage of development as an instrument of local

policy.<sup>15</sup> Moreover, experts emphasize that the current system of calculating and distributing the amount of transfers is unrealistic. They often do not even cover salaries of budgetary employees, let alone other expenses such as capital repairs or management of public institutions (Popa and Furdul 2004). This makes local governments extremely weak and dependent on the state and its constituencies.

Figure 10.  
What Hampers the Implementation Process?

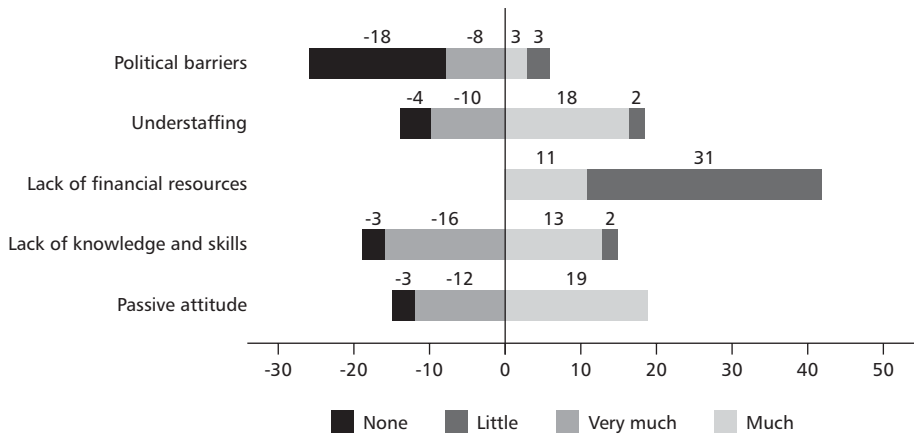


Figure 11.  
Do You Take Account of the Strategic Plan  
When Drawing Up the Local Budget?

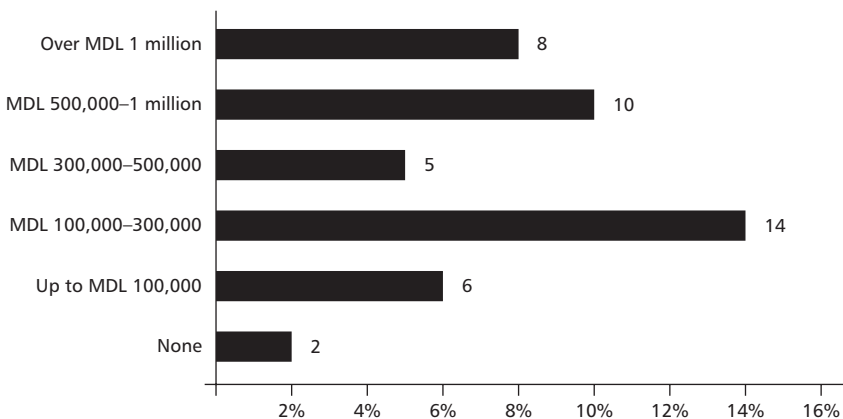


Consequently, although local governments generally try to link their strategic plans to the local budgeting process (Figure 11), this link is extremely weak. As pointed out above, heavy dependence on state transfers and the virtual non-existence of local revenues leave local governments' financial capacity at almost nothing. Respondents argued that due to the almost total lack of freedom on the part of local governments to reallocate resources in accordance with local needs and priorities and extremely limited amounts of discretionary funds, only small, less costly elements of the plans can be considered for implementation. In most cases these resources are used to meet the community contribution requirement for potential funding from international donors.

According to the questionnaire, the majority of respondents (35) said that their budget allocated between MDL 100,000 to one million (USD 8,000 to 80,000) for strategic plan implementation in some form, while two localities had no available resources for this purpose. There were only eight cities/towns that could afford to allocate over MDL one million. These were usually large cities that implemented five or more projects (Figure 12).

*Figure 12.*

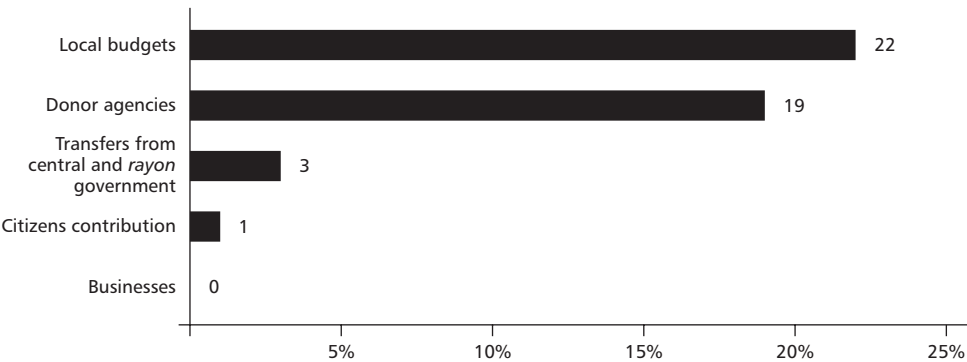
Which is the Amount Allocated for the Implementation of the Strategic Plan Projects from the Local Budget?



Additionally, the results of the questionnaire indicated that local governments count on local budgets (22 answers) and almost equally on donor funds (19 answers) for the implementation of their local development strategic plans. No respondent indicated a reliance on private sector contributions through partnerships, and just one respondent mentioned citizens' contribution in any form (Figure 13). In this latter case, a community contribution is likely to have been collected only when a personal concern such as gas service or water supply was to be addressed.

Figure 13.

When Implementing Strategic Plans Which of the Following Do You Most Rely On?



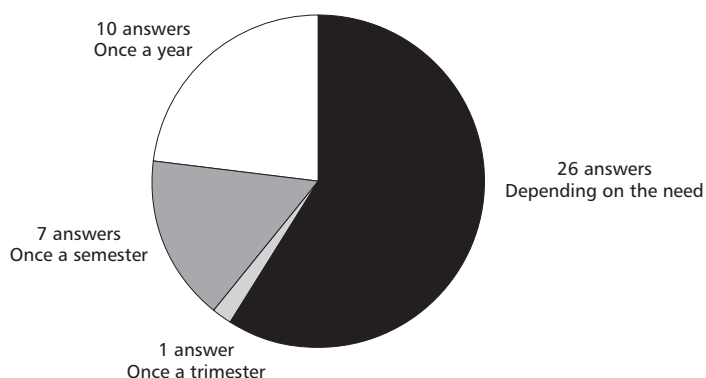
Evidence indicates that local governments feel that their ability to implement local development strategic plans is linked to securing project funding from donors, and without consistent funding support it would be virtually impossible to implement any projects as specified in the local development strategic plan. At the same time, mayors witnessed that even when the opportunities to access donor funding arise, their financial capacity to meet donor contribution is extremely limited.

Although in the current situation external funding is important and has proven to be beneficial in helping communities realize aspects of their strategic plans, but it brings an accompanying malaise. Not only does such external assistance nurture dependence on a source of funding that is temporary in nature, but it also requires local resources to be allocated for projects in the strategic plan based on donor priorities rather than local priorities. In fact, amending local development strategic plans “as needed” to make a project eligible for donor funding is a now common practice. The questionnaire found that over half the respondents (26 answers) amend local development plans as needed. As a result, the strategy ends up being used primarily as a way to leverage external funds (Figure 14).

Likewise, the readily available source of donor assistance for strategic plan realization also does not necessarily encourage local public officials to seek active partners with other local stakeholders and mobilize additional resources in order to implement their strategic plan.

Implementation literature also points out that allocation of adequate financial resources often tends to ensure successful implementation by affording a large, competent staff and covering various administrative costs and expenditures that are part and parcel of the implementation process. Independent of any discussion of strategic planning implementation, city halls are already understaffed and are unable to adequately provide local citizens with all of the public services that they are required to provide by law.

*Figure 14.*  
How Often Do You Review and Update the Local Development Strategic Plan?



In addition, local governments have limited freedom to organizing their own administration due to the rigid criterion laid out in the Law on Local Public Administration. Article 18.2.f. obliges local councils to form their executive bodies in accordance with the standard structure approved by the national government.<sup>16</sup> Nor do local governments control the salaries they can pay their own employees because this is also established by the state. The existence of a structure not only constraints the autonomy of local governments, but also hampers their capacity to manage their own affairs in an efficient and effective manner.

In spite of the above, very few local public officials are aware of the underlying problems of capacity. Less than half of the questionnaire respondents (13 answered “greatly,” and two answered “very much,” while 13 answered “very little,” and three answered “none”) perceive lack of knowledge and skills as a barrier in the strategic plan implementation process.

During interviews, local specialists argued that there is a popular misconception among many local governments about what is needed to ensure successful strategic plan implementation. Frequently, local officials will say, “we know what we need just give us the money and we can solve our own problems.” In fact, most officials could not say with any sort of credible precision how they would spend additional funding if it suddenly and fortuitously became available.

Complacency on the part of local public officials as it regards personal knowledge and skills, as well as the management of their municipality, was also evident in the Training Needs Assessment conducted between October 2005 and February 2006 for the development of the National Training Strategy for Local Government by the Council of Europe in Moldova. The same report found that participation in training



is very limited (25 percent) and expressed interest in training is at best moderate (not exceeding 50 percent).

According to the authors of the Training Needs Assessment Report, lack of motivation for professional development can be explained by the following: unsatisfactory level of remuneration, limited job security subject to political changes in the management of municipalities and corresponding lack of interest in committing one's time to such a process, lack of awareness of modern management methods and tools, lack of financial resources for in-service training, lack of professional literature, lack of an efficient mechanism for promoting best practices, and very limited possibilities for exchange of information and professional experience among local governments within Moldova and abroad.

High morale among implementers is another factor that nurtures effective implementation. This is particularly important for new programs and projects where staff and stakeholder buy-in is being sought for the first time, and which focuses heavily on participation, stakeholder involvement, public responsiveness, and customer-orientation. These ideas are based on western models of public administration, which indeed is increasingly oriented towards implementing projects via public-private partnerships and an eye toward citizen participation in project design and implementation. The questionnaire, however, revealed that such an attitude is a hurdle in the process (Figure 10) and this is relevant for both local government staff and the public at large.

Indeed, evidence from interviews prove that a negative attitude and lack of confidence that problems can be solved by the city/town itself is a stumbling block in initiating and implementing development projects. In some ways, local government staff members are often unmotivated and at best unenthusiastic about the process. Previous practices are still in use, and any changes are vehemently opposed. From the side of local citizens, there are high expectations from governmental structures that contrast sharply with the widespread dissatisfaction with their performance.

Such "unfavorable" attitudes are the result of a long history, and interviews provided some explanations about the roots of this attitude. First, the mentality that "someone will solve the problem for us" and will take on the responsibility for the development of the whole city/town is still shared by the majority of the population. Such a passive attitude is a burden on the few stakeholders that engage in project implementation. Second, many of the active and innovative individuals who decided to fight for a better quality of life have left their communities in search of better opportunities abroad and thus a major potential source of local innovation is missing.

Nonetheless, in contrast to overwhelming negative attitudes and skepticism, engagement in local affairs has notably increased compared to the soviet era and more and more citizens and stakeholders have become involved in matters of local significance. However, examples of the impact of positive attitudes are likely to remain rather limited as long as local governments do not consistently apply effective tools for improving the

local governments' image and building up confidence and trust among stakeholders. Evidence indicates that marketing "short-term wins" is a successful way to inspire the confidence of skeptical staff as well as stakeholders and citizens, because both groups are often most convinced to buy into a project when given proof that previous projects have been successful.

Finally, political barriers rank relatively low among responses. However, respondents noted that this is valid at the local level where, albeit relatively successful, city administration and the city council collaborate directly with city residents. Regional authorities, however, position themselves as a superior governing body empowered to issue orders and exert control instead of collaboration, whereas contacts with central authorities have their own preferences.

## 5.6 Why Aren't the Economic Components of Local Development Plans Implemented?

While there is an increased awareness that citizens can no longer rely on the central government to look after the welfare of local communities, and that local governments are expected to take charge of the economic development needs of their communities, little if anything has been done to reflect this. A set of interrelated factors hinders the implementation of LED components and influences the likelihood that such activity will be successful once begun.

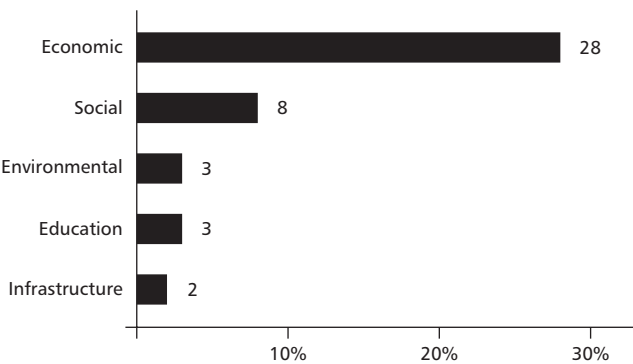
As mentioned before, LED projects beyond small infrastructure projects aimed at quick improvements in the provision of basic services have been isolated (two out of a total of 208). This is in spite of the fact that LED constitutes a significant component of the local development plans and represents an area of priority, at least on paper, for local governments (Figure 15).

Experience demonstrates that LED does not just happen unless there is somebody to take responsibility and lead the economic development efforts. The main stakeholders—local governments, the private sector, civil society organizations, and community groups as well as donor agencies who introduced the local development planning—could have consistently supported the process, but for various reasons this did not happen.

While international programs generally were better equipped with resources and expertise needed to push through and institutionalize implementation efforts, they were based on a fixed mix of interventions with a very weak link between the planning and implementation phases. Although highly appreciated by recipients, donor efforts were insufficient in supporting the post-planning phase and building local capacity to deal with entirely new tasks, manage totally new processes, and focus on components that traditionally were not handled by local governments. LED in particular has not been

prominent on the agenda of international donor organizations<sup>17</sup> and is still beyond the scope of existing donor programs in Moldova (see Annex 12).

Figure 15.  
Current Priority Areas for Town's/City's Development



Source: *Training Needs Assessment*, Council of Europe.

Alternatively, local governments were best positioned to undertake the leadership of local economic development, but they lacked both human and financial resources, as well as knowledge, skills, and no less important, motivation to carry out this endeavor. When the planning phase was over, organizational structures of city halls remained intact. Instead, various aspects of the LED component were formally assigned to various categories of officials and stakeholders from mayors and deputy mayors, local council members and businesses, local business associations and local chamber of commerce, accountants, forecast analysts, local council secretaries, and public relations specialists. In the interviews, respondents who were formally assigned such responsibilities confessed that neither time nor funds were available to work on any LED activities in earnest. Under these institutional arrangements there was nobody to coordinate and lead the effort for implementation of an LED component.

Furthermore, although the Law on Local Public Administration (Art. 10.1.a) lists socioeconomic development and urban/town planning among responsibilities of the first-tier governments, local governments, with very few exceptions,<sup>18</sup> do not have a Local Economic Development Officer within the city halls. By and large, they opt to set their organizational structures according to the recommendations of Government Decision 688.

Clearly, mismatches between local needs/priorities and “recommended” tasks, as well as gaps between number of employees and responsibilities puts local governments into difficulty in balancing between “standard” and “non-standard” tasks.

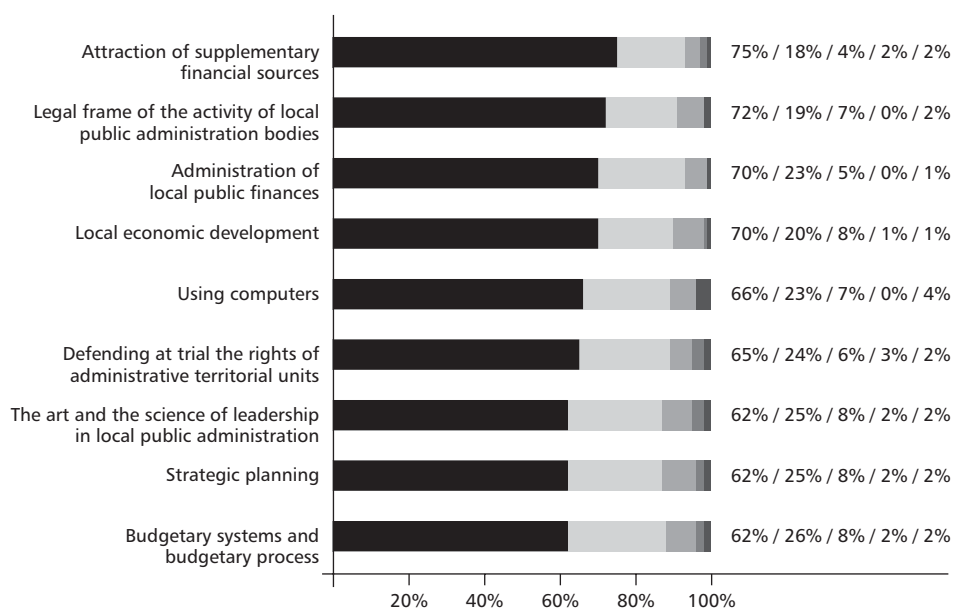
*Table 1.*  
Staffing of Mayors' Offices of Towns and Cities except Chişinău  
and Bălţi Municipalities

Positions	Number of staff based on the number of population						
	Up to 5,000	5,001– 10,000	10,001– 15,000	15,001– 20,000	20,001– 25,000	25,001– 30,000	Over 30,000
Mayor	1	1	1	1	1	1	1
Deputy Mayor	—	1	1	1	1	1	2
Local Council Secretary	1	1	1	1	1	1	1
Chief Accountant	1	1	1	1	1	1	1
Deputy Chief Accountant	0.5	1	1	1	1	1	1
Forecast Analysis Specialist	—	0.5	1	1	1	1	1
Legal Specialist	—	—	0.5	1	1	1	1
Public Relations Specialist	—	—	—	0.5	1	2	2
Military Specialist	1	1	1	1	1.5	1.5	2
Tax Collector	1	1.5	2	2	3	4	5
Land Specialist	1	1	1	1	1	1	1
Architect	—	—	0.5	0.5	1	1	1
Municipal Services/ Construction Specialist	—	—	0.5	0.5	1	1	1.5
Youth and Sport Specialist	—	0.5	1	1	1	1	1
Secretary	0.5	1	1	1	1	1	2
Chauffeur	1	1	1	1	1	1	2
Independent	—	—	—	0.5	0.5	1	1
<b>Total</b>	<b>8</b>	<b>11.5</b>	<b>14.5</b>	<b>16.0</b>	<b>19.0</b>	<b>21.5</b>	<b>26.5</b>

Additionally, since LED was not a traditional function of local governments in the past, the capacity of local officials in understanding basic LED concepts and tools and applying them is extremely limited. Although knowledge and skills could have been developed, LED training was beyond the scope of the in-service training programs of local officials. A review of academic curricula and modules for in-service training programs delivered at the Moldovan Academy of Public Administration revealed that no LED-specific courses were developed and taught. An inventory of professional books and materials available at the Academy library found that available materials are extremely limited. Toolkits and practical guides on LED in the local language are virtually nonexistent.

Not surprisingly, the Training Needs Assessment conducted between October 2005 and February 2006 for the development of the National Training Strategy for Local Government by the Council of Europe in Moldova found that LED ranks high among mayors' immediate training concerns (Figure 16).

*Figure 16.*  
Priority Training Subjects Selected by Mayors



Further, private businesses could have been more active in leading LED implementation efforts, but due to the fact that the involvement of the business sector in the planning phase was extremely limited, many of them were not even aware of these development opportunities. Personal contacts are still the most common way of proceeding. Problems

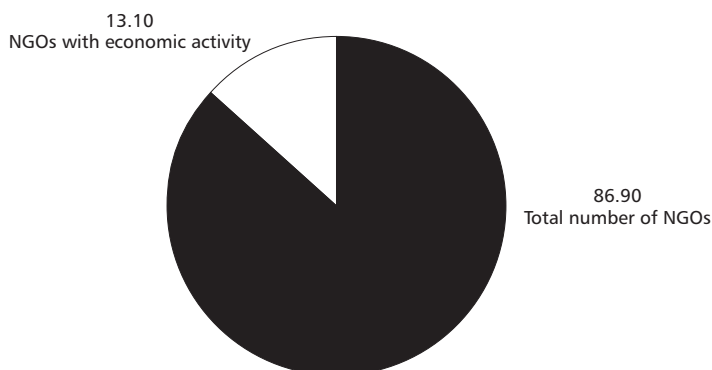
addressed through informal channels are individual in nature and solutions are issue-driven. This practice violates the principles of participatory approaches such as equal access and transparency, ultimately reinforcing overall dissatisfaction with the system.

At the same time, the questionnaire reflects an increasing role devoted to the private sector in the local development process (Figure 7). However, even though respondents expressed awareness of the need to actively involve the private sector, not one had clearly formulated a strategy on how to build effective and successful policy or implementation partnerships. Even in cities that have registered better results in implementing their local development strategic plans, local officials and leaders prefer more to work with individuals or community groups than with businesses. Lack of time to devote and skepticism from the part of local businessmen are the most frequently cited causes explaining why there has been such limited interaction with private sector towards the implementation of local strategic plans.

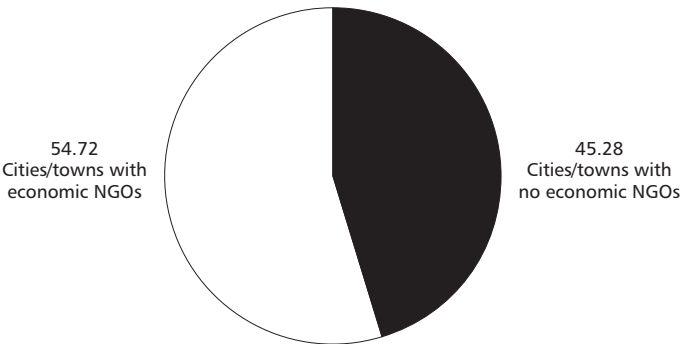
As for the civil society organizations, at that time they were only emerging. While at present the number of local nongovernmental organizations has increased, their virtual majority are weak “one-man” or “one-family” organizations. Some NGOs leaders operate two or three different organizations in order to receive grants, but without having clear mission and building up sustainability of the organizations. The majority of them are inactive whereas some are too weak to state and defend their opinions.

Further, the analysis of a local NGOs database<sup>19</sup> revealed that only 13.10 percent of the total number of registered NGOs has an economic activity at its core (Figure 17), and they are concentrated in slightly more than half of the cities and towns (54.72 percent), while the rest of the cities and towns have no economically oriented NGO on their territories (Figure 18).

*Figure 17.*  
Percent of NGOs with Economic Activity



*Figure 18.*  
 Cities/Towns with Economic NGOs



### 5.7 The Issue of Infrastructure Development

The rates of infrastructure and municipal service deterioration all across Moldova is alarming. The analysis of hard infrastructure components from local development plans reveals that most objectives in local economic plans include increasing the availability of potable water, improving and/or expanding the sewage disposal system, improving the solid waste management system, building and/or extending the gas service supply system, building and/or extending alternative heating services, and building and/or improving key access roads (Annex 3). In view of the existing situation, local governments understandably focus their attention and efforts on these issues at the expense of others.

However, without new sources of substantial and stable revenue and appropriate levels of fiscal autonomy needed to prepare, adopt, and manage budgets locally, finding the means to invest in basic infrastructure at an acceptable level is far beyond local government capacity. In one interview, the Mayor of Bălți—Moldova’s second largest city—pointed out that his city has to re-establish approximately 200 kilometers of water mains. If at current prices one kilometer costs approximately MDL one million, and Bălți can afford to allocate only MDL one million from its own resources yearly, then it will probably take 200 years to fully restore and repair the water supply system.

The problem of hard infrastructure was also documented by the Annual Evaluation Report on EGPRS, which acknowledges that re-establishment and maintenance of infrastructure implies huge costs that national budgets cannot fully afford, much less local governments. At the same time, further delays in infrastructure rehabilitation not only prohibit the development of businesses but also lead to greater rehabilitation costs in the future.

Thus, Moldova, like many transition countries, seems caught in the “vicious circle” of being unable to afford levels of investment needed for critical infrastructure without substantial economic development at the local level. Simultaneously, substantial economic development at the local level remains highly unlikely absent a substantial and continuing investment in key local infrastructure. However, hard infrastructure investment should not be the single priority of development, instead a justified balance between hard and soft interventions is needed.

## 5.8 Good LED Practices: the Ungheni Free Economic Zone and Business Support Center

In early 2000, the city of Ungheni, with technical assistance from the Moldovan office of UNDP, drafted its first ever Strategy of Sustainable Development for the years 2000–2020. It was an immense challenge and an arduous exercise, as a strategy development working group and stakeholders had to be identified; large-scale opinion polls had to be conducted; data had to be collected, processed and analyzed; a vision had to be formulated; and strategic goals, objectives, and projects to support the attainment of this vision had to be developed.

The strategic plan was approved by the city council in 2001. With strong and consistent support from local leadership, the UNDP Local Coordination Unit was established to monitor and facilitate strategy implementation. The coordination unit then started to look for opportunities to translate into practice 16 strategic programs that cover three areas—economy, social support, and the environment. It was extremely difficult, but in the five years since its inception, the city of Ungheni successfully implemented nine programs (see Annex 13) and its experience proves that the benefits far outweigh the hardships.

With respect to aspects of LED addressed in the Ungheni strategic plan, the Ungheni Free Economic Zone and the Ungheni Business Support Center were two ambitious programs that were realized after their creation was called for in the Ungheni strategic plan as a way to boost LED.

### The Ungheni Free Economic Zone

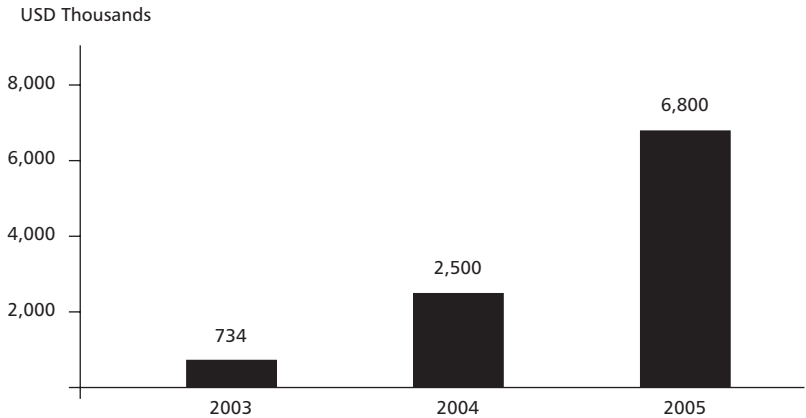
The idea of creating a Free Economic Zone (FEZ)<sup>20</sup> in Ungheni was aired in 1992 but it did not get broad support until it was included as a priority project in the local strategy document. Once included the strategy, local government allocated a vacant parcel of land for this purpose and, jointly with local stakeholders, launched an intensive lobbying campaign in and out of the city. As a result, in 2002 the Moldovan Parliament adopted the Law on the Free Economic Zone “Ungheni-Business.”



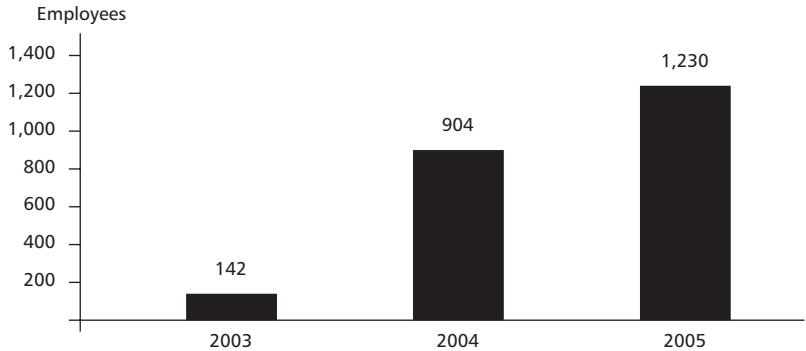
Since then, management of the FEZ “Ungheni-Business” took the lead and developed on-site infrastructure and facilities and marketed the zone in order to attract businesses from all over the region and beyond. Presently, a total of 28 companies—20 domestic and eight foreign companies from Belgium, Russia, Romania, Italy, Austria, Poland, Belarus, Israel, and Germany—run their businesses within the FEZ “Ungheni Business.” Even so, this number represents only 60 percent of the zone’s total capacity, and more businesses are expected to be attracted to invest in Ungheni in the future.

In a relatively short period of time, a business-friendly environment and attitude have helped to leverage USD 6,800,000 in investment (Figure 19) and create 1,230 new jobs (Figure 20). Additionally, FEZ “Ungheni Business” contributed to the city’s infrastructure development. In 2005, for instance, its contribution amounted to MDL 802,000 (approximately USD 62,000).

*Figure 19.*  
Ungheni Free Economic Zone: Investment Totals



*Figure 20.*  
Free Economic Zone Ungheni: Number of New Jobs



Although FEZ “Ungheni-Business” started its activity in 2003, it registered the second best economic performance after the Chișinău Free Economic Zone was established in 1996.

## **The Ungheni Business Support Center**

The Ungheni Business Support Center (UBSC)<sup>21</sup> was set up in 2003 with support from the EU TACIS program. It is an example of a highly effective professional business development organization. The center was founded on the principles that small and medium size enterprises are the main engines of economic growth, creating a local business environment conducive to their development through partnership among local business community, local governments and other relevant stakeholders in Ungheni city as well as the region.

UBSC provides a wide range of business support services, such as business consultancy and training on business planning, human resource management, market research and feasibility studies, market planning and strategy, financial planning, business restructuring, business evaluation, and business incubation, with a total area of 1,300 square meters of office space fully equipped and furnished.

Given the fact that Ungheni is located very close to Romania, the UBSC has attempted to capitalize on increased business and donor community interest in this geographic area and transformed the rather dormant economic climate of Ungheni into a dynamic frontier market full of opportunities by positioning itself as a center of cross-border cooperation resources and expertise in the following areas: export and investment promotion, trade fairs and business match-making activities, and other international trade events.

Along with the UBSC, a Cross-border Information Office aiming at providing relevant information on cooperation opportunities between Iași (Romania) and Ungheni—with permanent offices within the Iași Chamber of Commerce and Industry—was established. From 2003 to 2005 over 50 Moldovan and Romanian businesses have been assisted in developing cross-border cooperation relationships. Additionally, economic missions in Romania resulted in subcontracts of Moldovan goods worth approximately USD seven million.

The transfer of international standards is being done through hands-on assistance from international experts to a team of seven full-time staff members. Starting in January 2006, UBSC became self-financing. Demand for fee-based services is high, and the UBSC has proven to be very active and financially adept.

## 6. ANALYSIS OF POLICY OPTIONS

The outline of the current state of development viewed in both national and territorial dimensions highlights the fundamental issue of Moldova's development pattern: lack of development across a very large part of the country forbids its adequate participation in the overall development process. This fact undermines the quality and sustainability of growth and puts the future prospects of Moldova's development at risk.

Given the fact that it is much easier to develop and implement sound policies during growth periods, it is imperative that Moldova identify the main constraints and take advantage of opportunities available now. Building internal capacity and enlarging the base of development beyond Chișinău is a main route toward making growth sustainable.

Exploring the development opportunities offered by LED policies and seeking ways to act directly on local economic factors is one of the highly recommended entry points. This option is supported by an obvious, but sometimes overlooked, consideration: some factors that determine the development of specific areas are national and can only be modified by national policies; while others are local and distributed irregularly across the country because they spring from different territorial conditions. Thus, development of specific areas does not depend solely on national factors; it equally depends—and perhaps much more than is commonly thought—on factors that are local.

This is not to suggest that new national policies are irrelevant or not needed, quite the opposite. In theory it is certainly possible that central planning of local economic interventions may be able to select the optimal mix of measures for each region. Economic history, however, highlights the difficulty of planning local economic development from the center, and instead, shows that an array of “bottom-up” policies backed by a coherent national reference framework may achieve differentiated goals more effectively (Viesti 2002).

Also, international experience has shown that local governments can influence their own economic futures because they are best positioned to create and maintain a local environment conducive to private sector economic activity. Developing and implementing LED strategic plans or undertaking strategic planning efforts with a strong economic component is the best vehicle when seeking to enhance local economies and overall local development.

More specifically, the preferred option is supported by key findings resulting from the assessment of the implementation over the past five years of local development strategic plans in Moldova, with particular emphasis given to the assessment of the implementation of the local economic development components in such plans. The following policy options are to be explored:

## Option A: Status Quo

Whereas strategies are just starting to be implemented, one thing that stands out in the analysis of the initial planning and implementation practices is that for a number of reasons mentioned throughout this paper these efforts were inherently weakened at the outset and consequently, local development strategic plans, including LED components, either fail to get implemented or are implemented in a grossly inefficient and ineffective manner and thus do not secure the best value for the time, money, and effort invested.

Further, the maintenance of the current situation predictably will not only keep local communities underdeveloped, but will deepen even further negative development trends such as de-urbanization, emigration and mass labor migration, expansion of poverty zones and social inequality, and infrastructure deterioration. Last but not least, this will also cause a greater degree of disillusionment and a greater lack of faith of the local citizens in their local governments.

## Option B: Develop and Implement an Integrated Local Development Strategy

Ideally, an integrated approach that ensures balanced economic, environmental, and social components in strategy development should be considered. However, international experience indicates that strategic planning initiatives evolve through stages and the attempt to secure comprehensive coverage at the outset may not be the most effective way forward. Alternatively, in cities and towns with very limited or no experience with the strategic planning process, it may be best to start with a single sector and then expand to full-fledged coverage later.

It should be noted that whereas utilizing an integrated approach to strategic plans is highly desirable, due to the scarcity of resources and limited capacities this is not feasible at present. Alternatively, a focus on a sector that could serve as an entry point should be considered with the intent to achieve an integrated strategy later. However, it should be stressed that even when embarking on strategic planning efforts with a focus on a more limited range of issues, the ultimate goal of securing an integrated approach should always be kept in mind in order to avoid overlaps and potentially conflicting planning outcomes in the future.

## Option C: Optimize the Economic Components of the Local Development Strategic Plans

While initial local development plans have been instrumental in introducing the concept of strategic planning and implementation practices, under current financial and institutional constraints, putting first things first and focusing on the highest priority issues is of paramount importance.

Given the acute need to lay the groundwork for robust economic growth via a set of “bottom-up” LED initiatives, and considering the mayors’ shared views that LED is of the highest priority for their town and city development, Moldova’s local governments and the country at large would greatly benefit from well-developed and up-to-date LED strategic plans implemented in cities and towns all across Moldova. Working in a consistent manner towards the attainment of clear and realistic LED initiatives would create a favorable business environment locally; such an environment would attract investments; successful investments would create jobs; availability of employment opportunities would increase the chances that people with higher educations would find work at home, and ultimately would make it more desirable to live in Moldova for everyone. Apart from this, LED will have positive carry-over effects to other areas of development as well.

For the successful design and execution of LED strategies, a series of methodological, institutional, financial, and capacity building challenges should be addressed. Since LED constitutes one of the main components of the initial plans and a significant amount of time, money and energies have already been invested in building planning capacity and introducing certain practices, it is essential that these plans and/or components are considered and become the basis or starting points for future efforts rather than devising new LED plans from scratch.

Another factor specific to Moldova is the small size of many local governments that precludes the possibility of implementing meaningful economic development initiatives. In numerous cases activities will not be feasible either because of resource constraints or because it can only be effectively implemented over a larger geographic area. However, local governments may try to overcome the difficulties arising from their small size and limited resources by joining forces and undertaking collaborative initiatives. This can be best achieved within the framework of the forthcoming regional development program.

## 7. RECOMMENDATIONS

The immense need for economic revitalization in cities and towns across Moldova requires local governments to take an active leadership role in order to ensure the suc-

cessful outcome of any such initiatives. While it is true that under current conditions local government capacities for laying the groundwork for a robust and sustainable local economy is limited, it is equally true that local governments have never fully explored the possibility of mobilizing and bringing together the talents, knowledge, skills, experience, energy, and resources of all and each stakeholder group in support of local economic development. To maximize their potential, partnerships for local economic development must be built and tailored to address local comparative and competitive advantages.

With a view toward achieving higher levels of LED, the following recommendations may be considered:

## 7.1 Recommendations for Local Governments

- **Establish a LED Unit within city hall:** Local governments should find ways to hire at least one full-time Economic Development Officer in each city hall with the prospect of creating a special LED Department of three to five persons (depending on the city or town's size and capacity). If under current conditions local governments are unable to hire a person in this position, they should reconsider the current organizational structure and shift personnel in order to ensure that someone in city hall is assigned to specifically address LED issues. Ideally that should be a person who participated in the planning phase and is familiar with the process.

The LED Unit will be responsible for the implementation of a LED component of local development strategic plans with the purpose of continuing the work and developing a sectoral LED strategy. Economic Development Officer(s) will be responsible for performing a variety of duties in support of the city or town's LED initiatives. Typical duties may include, but are not limited to: (i) collect, compile, and analyze data about local economic conditions, (ii) plan, organize, implement, and monitor local economic development projects, (iii) research grant opportunities and develop project proposals, (iv) act as a liaison with businesses and public/private agencies and other city hall staff teams and assist in arranging meetings, conferences, and public information programs, (v) prepare a variety of comprehensive studies, proposals, and reports related to program activities and assigned projects and make presentations as directed.

The ideal candidate will hold an advanced degree in business, finance, economics, public administration, or a closely related field and have up to three years of professional experience. In addition to meeting the education and experience requirements, the ideal candidate must be experienced with principles and practices of economic development, business financing, business development and retention programs, fundamentals of employment training programs, marketing and international trade programs, etc. as well as possess excellent project management knowledge

and skills. The ideal candidate will also demonstrate experience in building strong partnerships with community stakeholders both private and public and will have a proven ability to represent the LED Unit in a wide range of settings and possesses written and verbal skills allowing them to promote and develop a local economic development plan.

The above requirements describe an ideal candidate and at present it might be difficult to attract a professional with these qualifications to work at the local level. In cases where a suitable candidate with such qualifications cannot be located from locally, LED Officers should be incrementally trained in order to eventually possess such skills and qualifications. Alternatively, at the initial stage, local consultants might be hired on a short-term basis to get the process moving and/or to transfer their knowledge and skills through hands-on training.

- **Review LED components of existing local development strategic plans:** Once an LED Officer has been hired and/or a LED unit established, necessary training has been completed, the office equipped, and stakeholders with vested interests in LED identified, the officer should take the lead and initiate a thorough review of the LED components of the current local development strategic plans and turn them into a well-thought-out and up-to-date sectoral LED plan. Since local planning capacity will still be in its infancy, professional teams should be contracted to facilitate and support the process. One way is to submit a request for technical assistance to donor organizations or contact national consultants who may be willing to assist at relatively low rates.

While undertaking these efforts local governments should consider all lessons learned from their original efforts, as well as best practices from in and out of the country, and incorporate them as relevant and applicable. Some suggestions are offered below.

As data collection at the local level is currently minimal, one of the first tasks of the LED Officer should be to collect LED-relevant information, as this is a necessary foundation for any successful LED-planning process. Data collection is a daunting and time-consuming task; therefore it is absolutely necessary to decide strategically from the outset on the type of information to be collected in order to avoid unduly wasting time and resources. Whenever necessary, alternative tools of data collection such as focus groups should be used. However, an extensive business attitude survey in the form of a structured questionnaire is a must for development of a good quality LED plan.

Data analysis should be done in a professional manner. If such capacity is lacking at the local level, local governments should call on experts in the field. However, a group of stakeholders should participate in the data analysis process in order to debate the findings and build local capacity via hands-on training. For the purpose

of data analysis, various tools can be used, but it is important that an overall view, as well as each individual aspect is considered, and items are fact-based and specific. Once data has been analyzed, all findings should be shared among the larger stakeholder community, including local council members and mayors as a starting point in developing a common vision.

Additionally, although local governments face a wide range of issues, they should not attempt to solve the bottlenecks in Moldova's economy, but rather stay focused on what is achievable locally under current conditions. Being realistic about strategy is extremely important, and the best approach is to act on local factors maximizing strengths and opportunities while minimizing threats and weaknesses. LED goals should be well defined, while objectives SMART—Specific, Measurable, Attainable, Relevant and Time-bound. Long-term goals should be supported by short-term objectives, as early successes often greatly facilitate stakeholder “buy-in” and become the foundation for long-term outcomes. Finally, local governments should consider a balanced portfolio of projects: short, medium and long term, simpler and more complex, inexpensive and more expensive, hard as well as soft infrastructure projects.

- **Strengthen the link between LED strategy and budget:** As a principle, strategies need to be fully integrated into the budget process to ensure that the financial resources are available to translate them into action. Conversely, the formulation of budgets must take into account the priorities highlighted in the strategy. Although in an unstable fiscal environment where local governments have little of their own revenues and are subject to wide year-to-year swings in grant revenues received from *rayon* governments, this can be particularly challenging; making the most efficient use of scarce resources is crucial.

Although under current circumstances the connection between strategic plans and local budgets is extremely weak and only certain elements can be considered, local governments should continue linking the two so that as local governments' fiscal base gradually increases, the connection is firmly established. Additionally, local governments should reconsider the practice of allocating resources for projects that are not part of their strategies, because implementing a group of well-prioritized projects that support an evidence-based strategy is likely to produce better results than a group of unrelated projects. This approach will not only allow local governments to make the most efficient use of scarce resources, but also avoid biased projects and keep focused on implementation priorities.

On a parallel track, local governments would benefit from developing operating budgets that encompass more than the typical 12-month period. This is based on the assertion that it is much easier to incorporate a long-term perspective into the local budget and to link budget items to broad community goals when the



span of time under consideration is two or more years, rather than the single year commonly covered by local government budgets. The advantages of multi-year budgeting, as identified by mayors and finance officers from outside who have implemented a multi-year budget, are summarized as follows: (i) it incorporates a long-term perspective; (ii) it buffers budget decisions from political pressures; (iii) it reduces reliance on short-term grants; (iv) it motivates key players to anticipate problems; (v) it helps decision makers manage long-range budgetary impacts; (vi) it improves goal-setting and assures stakeholder input.

Getting started on the multi-year budgeting process is a considerable challenge at this point in time, and changing local government budgeting practices requires not only a supportive legal framework but also an enormous management effort. However, with a good understanding of multi-year budgeting objectives, a firm decision to proceed in place and carefully considered preparatory steps, switching from a single-year to multi-year budgeting process should be less challenging.

As a first step towards implementation of multi-year budgeting, local governments should consider creating and using multi-year financial plans. Developing such plans will acclimatize local elected officials, city hall staff, and stakeholders to many of the multi-year budgeting aspects while giving them the opportunity to embrace change gradually.

- **Involve stakeholders in the budgeting process:** Although budgeting has been traditionally perceived as a very technical subject best left to experts, public hearings on budgets successfully conducted in some cities and towns in Moldova for some years now—Bălți has successfully conducted public hearings on its budget 5 years in a row—have shown that budgeting can be the subject of public dialogue and, in some cases, decision making. Therefore, local governments familiar with budget-hearing practices should continue it and take it as a departure point in developing a participatory budgeting program—with the public making the choices not only about spending priorities, but also getting involved in the process of budget design and management—while the novices may learn from their peers. To be successful, this idea will require goodwill and active cooperation from all partners. One result could be increased public understanding of the difficult resource allocation decisions faced by local governments, which may lead to more realistic expectations about what local governments can deliver. This in turn may lay the foundation for engaging stakeholders in mobilizing additional resources and taxes for implementing programs or projects and, even more important, may fuel an increased trust and confidence in local governments.
- **Establish a strong political process to back up LED:** Despite the fact that many council members have limited experience in local development and particularly in

local economic development, local governments should develop and foster positive and continuous relations among councilors, city administrations, and stakeholders. That will allow council members not only to understand the interests and needs of local stakeholders and to adopt sensible, timely, and well-thought-out resolutions in support of LED initiatives, but will also help them to get actively involved in the process, efficiently perform their duties, and contribute to the development of the communities that elected them. Regular work sessions, briefing sessions, goal-setting sessions, joint meetings with mayors, councilors, city hall staff, and stakeholders groups are efficient and relatively inexpensive means of sharing information and building and maintaining trustworthy and strong collaborative relations. Additionally, whenever possible, local councilors should be encouraged to attend training programs and workshops, as well as to undertake study visits in and out of the country to get exposed to best LED practices.

Of particular importance is ensuring a smooth, effective, and quick transition from “old” leadership to a “new” one in a post-electoral period. In such instances, the city hall staff should develop and run a comprehensive and well-developed post-election orientation program for newly elected officials, both mayors (if this is the case) and council members. The goal of such programs is to provide them with the kind of information they need to get on board quickly and become effective leaders. At a minimum, a background of local economic development conditions and a status report on implemented projects should be presented and a briefing should be done on upcoming program/project activities. This becomes even more important in view of upcoming local elections in spring of 2007.

Ensure active, meaningful, and continued involvement of stakeholders in support of LED: since community participation is beyond its initial stage but is still unsatisfactory, local governments should seek to stimulate stakeholders’ participation by all means. Whether or not stakeholders decide to be involved must be based on their personal choice rather than a lack of opportunity.

One way is for local governments to consider preparing a stakeholder involvement statement setting out *how* (workshops, focus groups, surveys, interviews, facilitated meetings) and *when* (timetable with key dates) stakeholders groups and the community at large will be consulted on the preparation, implementation, and revision of LED plans. Such a statement should seek to ensure the active, meaningful, and continued involvement of local stakeholders throughout both planning and implementation processes. At its most simple level, a stakeholder involvement process should ensure that people (i) have access to information; (ii) can put forward their own ideas and feel confident that there is a process for considering ideas; (iii) can take an active part in developing proposals and options; (iv) can comment on formal proposals; and (v) get feedback on, and be informed about, progress and outcomes.

It should be stressed that it is not enough to focus on providing information and consultation on proposals that have already been developed to the point where it is difficult to take other views on board. Thus, it is critical that stakeholders get the chance to identify issues and debate options from the earliest stages of the process so they feel that their participation is meaningful and can make a difference.

Additionally, local governments should consider factors that might influence the timetable and at different stages of involvement make sure there is sufficient time to work—providing information, participation through different methods (workshops, surveys, interviews, open space, facilitated meetings), consultation, and feedback. Further, local governments should be aware of the fact that involving “hard to reach” groups or disadvantaged groups requires much more time to explain the LED and planning process, therefore they should provide capacity building and education time in order to make it possible for them to contribute appropriately.

Although this approach enhances the chances for active, meaningful, and balanced participation, it is obviously challenging in terms of resources and effort and may be applied by cities that are more advanced in using participatory techniques. In any case, setting up a stakeholder group of up to eight to ten persons (depending on the city or town’s size) to represent the broader stakeholder community—local governments, the private sector, nongovernmental organizations, and community groups—to serve as a “nucleus of leaders” should be considered. Roles and responsibilities of each stakeholder should be clearly formulated, reporting mechanism established, and meeting-schedules fixed. Additionally, training opportunities for members of stakeholder groups in key LED areas should be sought. Study visits to countries that have good track records in LED may provide good opportunities to get exposed to LED tools and practices.

- **Build local capacity:** While the importance of the strategic planning process has been recognized during the past few years, capacity building activities have been extremely modest. Thus, for the successful design and execution of LED strategies a series of capacity gaps need to be filled. It should be noted, however, that before anything else, local governments should find ways to make the self-assessment of knowledge and skills more realistic and to raise employees’ awareness of the need for intensive professional development. Once this issue is addressed, local governments should make training needs assessments, identify the priority capacity development needs and work out a capacity building plan to address them.

The capacity building plan should be developed around two main components. The first component includes hard skills—strategy building, management and execution, monitoring and evaluation, project management cycle, economic data analysis, economic development instruments, etc. The second component would include a series of soft skills such as effective communication, public presentation, problem

solving, consensus building, negotiations, team building, and conflict resolution. Leadership training would have a significant contribution as it is often a crucial component in the economic development arena. Therefore, leadership training to support local governments, businessmen, and community leaders should be included in the plan as well.

While hard skills are technical and build up professionalism in a certain field, soft skills give the ability to function well in a complex and changing environment. Many of the above can have a strong “learning by doing” emphasis and can be built around the process of preparing a LED strategic plan or a single project; however involvement in well-established and practically-oriented LED training courses as well as skills building sessions, or a combination of the two, is preferred.

Ideally, local governments would allocate some financial resources for the implementation of their capacity building plan. Although under current financial constraints there are only few local governments that can afford it, they should proactively seek training opportunities provided by specialized NGOs or the Academy of Public Administration and place greater emphasis on professional development.

At the same time, because learning can occur in a number of ways—even among staff members within the same organization or among staff members of different organizations—local governments should encourage learning opportunities of any kind. Writing a brief report for co-workers as soon as a project has been implemented, making a presentation on how the project has been implemented, holding brown bag lunches with the purpose of sharing information and points of view on particular subjects, discussing insights from their latest stakeholders meeting or business forum are simple and relatively inexpensive ways of bringing the diverse experiences and functional knowledge of each staff member to the fore and supporting a learning environment among personnel. The same practice can be extended to learning opportunities among different organizations and/or localities.

Another learning factor to be considered is past experience in implementing similar projects or some components of the new project. Previous experience may have a significant impact on implementing new programs/projects, particularly if the earlier programs/projects were successful. Therefore, the knowledge gained from previous experience should be institutionalized.

Additionally, study tours in more advanced countries may be a good opportunity to get core teams exposed to LED practices and tools applied by local governments abroad. However, to be an efficient and effective learning tool, study tours should be carefully planned and prepared. The best destinations for study tours are transition countries across the region that have successfully found solutions to similar problems.

- **Set up and use an effective participatory M&E system:** While an M&E system can be very sophisticated, requiring considerable expertise in both quantitative and qualitative research methods and extensive information management, it can also be very simple. Given the scarcity of available resources and expertise, local governments are encouraged at the initial stage to develop a relatively simple M&E system and concentrate more on improving their implementation efforts rather than expanding the scopes and making a state-of-the-art M&E system.

First and foremost, local governments should change the perception towards M&E so that it is seen as an opportunity for learning. Afterwards, they should define the purpose and scope of their M&E systems. It is also important to ensure understanding among key stakeholders on why they need M&E and how comprehensive the system should be. Once these things are decided, local governments in tandem with key stakeholders should assess the information and needs and determine the validity, applicability, sensitivity, cost-effectiveness, and timeliness of each indicator. Instead of creating a long list of indicators—both quantitative and qualitative—they should consider the practical conditions of gathering the required information and its usage.

At the same time, local governments should keep in mind that measuring and knowing how much or how many is not enough. Equally important is to know why something is working well, or why not, so that local governments are able to provide strategic guidance and make appropriate adjustments. Simply knowing that local governments have, for example, built three roads within the expected timeframe does not tell one if these are of good quality, in the right place, and impacting the development of their community. Questionnaires, focus groups, and informal interactions can all be very instrumental in maintaining the focus and providing useful feedback on stakeholders' opinions and attitudes towards implemented projects.

Under current circumstances this is a daunting task, but once one makes it work, the benefits will outweigh the hardship, because an efficient and participatory M&E system assesses the progress made, provides reliable information needed to take effective decisions in a changing environment and to guide the strategy towards achieving its goals and objectives. It also motivates and encourages learning among those committed to a successful strategy implementation and ensures that accountability requirements are met.

Incorporating monitoring and evaluation elements into all projects and activities while encouraging the use of evaluation findings by project managers may be a good starting point for now. In any case, local governments should view the development and use of effective and participatory M&E systems as an important part of managing strategy implementation.

- **Collaborate across boundaries:** Local governments should place more emphasis on collaboration than they have done in recent years and learn to work across boundaries in order to form successful development alliances and coalitions. Exchanging information and expertise among local governments is one form of cooperation to be considered. However, efforts can be furthered towards achievement of tangible results by collaborating on implementing joint programs and projects. Such initiatives can produce a number of potential benefits. These may include: better informed decisions, better use of scarce resources, ability to create something that a local government cannot create as well on its own, a higher quality service, potential for individual and collective learning, an expanded network to help with future work, and ultimately greater ability to achieve the goals.

This is valid for cooperation with governments from within as well as outside the country. In respect to the latter, the city of Ungheni, which successfully implemented numerous cross-border cooperation projects in addition to over eight PHARE projects with Romanian counterparts, may serve as a good real-life example. In light of Romanian integration into the European Union starting in January 2007, cross-border cooperation becomes strategically important particularly for local governments geographically located along its border. The European Neighborhood Initiative Program will bring many opportunities, and it is imperative for local governments to proactively exploit them.

- **Develop efficient and effective relations with the central government:** While at present informal meetings or telephone contacts between local governments' staff and various national officials are commonplace, the development of effective associations to represent the voice and interests of local governments is a matter of priority. Local government interests rather than party and political ones should define such associations' agendas. They should lobby the national governments and advocate for the interests of their members, initiate task forces to tackle issues of common concern, facilitate exchange of experience and accelerate the utilization of best practices, and encourage new approaches to the promotion of sustainable local development. Nine hundred voices will definitely make one listen!

Obviously, creating constructive relations between central and local governments is a long process. However, positive influences from outside, such as the exchange of experiences with other countries, study visits, training, and seminars, can contribute to the process, particularly if local governments and the central government participate. This can break down barriers and help achieve mutual understanding.

Concurrently, local governments should identify shared interests, develop solutions, articulate them effectively, and influence decisions in their favor. Legislation, especially laws and regulations directly affecting local government services and structure; financial resources for the appropriate implementation of local govern-

ments tasks (may include transfers from local governments or the autonomy of local governments in deciding how to use the available means), human resources development including employment conditions, wage levels, training opportunities, etc., are just some issues of common interest.

Building a constructive dialogue with the newly created Ministry of Local Public Administration would be the first and most significant step forward. This can help to demonstrate to other ministries as well as other institutions that dialogue or cooperation with a local governments association can be mutually beneficial.

## 7.2 Recommendations for Central Governments

The central government and more specifically the newly established Ministry of Local Public Administration should take the lead in coordinating the effort to develop a well-thought nationwide program aimed at creating an environment conducive to local development in general and LED in particular, working continuously toward implementation. One of the specialists interviewed maintained that Moldova would benefit from putting three key reform elements firmly in place. These elements are: (i) establish a good legal basis, (ii) stable and independent sources of revenue for local governments, and (iii) long-term investment in human resources. These are described briefly below:

- **Establish a good legislative framework:** A “good law” (or a series of laws) must be based on well-recognized international standards such as the European Charter of Local Self-government. On one account, law(s) should clearly define the roles and responsibilities of central, regional, and local governments. The responsibilities should be “full and exclusive” and distributed between the state and local governments on the basis of the respects of the principle of subsidiarity (Article 9 of the European Charter). Furthermore, laws should give local governments the authority to decide on a staffing level and organizational chart to best meet local needs without any restrictions from the central government. That should be done under their own responsibility and within the limits of their financial capacity.

Within this context, the Ministry of Local Public Administration should actively seek legislative and institutional changes to operationalize the intent already agreed upon by the ratification of the European Charter of Local Self-government. It should be noted that before amending existing laws and/or developing a new set of laws, all interested parties—local officials, civil society, and academics—should be actively consulted and involved in effective public debates.



- **Increase the investment capacity of local governments:** Clearly, the revenue status of local governments will not change as long as the system of intergovernmental revenue remains essentially a “zero-sum game,” i.e., in order to increase the revenues of local governments, the central or *rayon* levels must reduce their own share of existing revenues. Therefore, a stable and independent source of revenue that would enable Moldova’s local governments to increase their piece of the revenue pie without forcing reduction of central or *rayon* revenues should be identified and put into practice. One of the specialists interviewed suggested that the locally administered *ad valorem* property tax already envisioned by Title VI of the tax code may well serve such a purpose, provided that minimum efficiency conditions are met.

One of the key aspects of designing and successfully implementing an *ad valorem* property tax in Moldova is that it must be an exclusively local tax. In practical terms this means that within broad limits set by law, local governments must be empowered to fix the tax rate completely independently. Further, the tax must remain exclusively in the community where it is collected and the local community must have the fiscal autonomy required to utilize the revenue to meet well recognized local priority needs as outlined in the local strategic plans, completely free of policy interference of “higher” levels of government. Finally, the community must be credibly guaranteed that they will not be effectively penalized in the system of intergovernmental finance, through corresponding revenue reductions, for having increased their local tax effort.

In addition, a well-thought-out system for local government access to capital markets and its mechanisms should be developed so that local governments can employ additional financial instruments. This will help local governments to attract new resources at their disposal and get involved in larger-scale investment projects.

The new dynamic resulting from the foregoing will create the pre-conditions required for accelerated local economic development. Roads, water systems, and community facilities will likely be the initial investment targets. Soon, however, local governments will learn to differentiate between investments that improve short-term conditions and investments that actually make the community more economically viable.

- **Invest in human resource development:** One point of agreement in the implementation literature is that the consistent availability of sufficient financial resources is central to ease implementation, but is not enough to guarantee success. Effective implementation occurs when the implementing personnel are well qualified and sufficiently motivated to operationalize strategic goals into operational actions.

Therefore, the problem resides not only in insufficiency of funding, but rather in an acute need, not always consciously perceived, for an increase in knowledge



and skills. To improve the situation, an intensive and sustained effort should be undertaken. The twin objectives of this effort would include re-training the current generation of local government personnel and preparing the next generation of public servants. The Moldovan Academy of Public Administration should play a crucial role in this regard.

- **Change the attitude towards local government:** Although there is a growing understanding among central government officials about the importance of placing local governments in the driver's seat, in practice their skepticism concerning the competence and integrity of government at the local level is one of the most significant constraints in implementing true decentralization. However, there is an impressive body of evidence deriving from both international as well as national experience that demonstrates that if local governments are provided with the means to manage new responsibilities, it is often amazing how well they respond to their new duties. Thus, central government officials should reconsider their attitude and treat local governments as equally important partners in the country's development process, which ultimately will result in a new dynamic of huge and positive nationwide magnitude and significance.

### 7.3 Recommendations for Donors

Donors provide support in a wide variety of sectors and engage in active dialogue on a wide range of policy and governance issues. Depending on how they go about providing their support, they can either strengthen or weaken the development process. To ensure that the resources provided are used efficiently and have lasting benefits, donors should consider the following general recommendations:

- **Direct resources towards local needs:** Problems facing local governments today are too complicated to be manipulated through donor program frameworks. Therefore, donors should improve their flexibility and work with local governments to accommodate their existing needs. Rather than changing the focus and designing new programs in "fashionable" development areas, donors may consider funding longer term initiatives with more consistent amounts and providing support specifically aimed at building local capacity and strengthening the recently introduced mechanisms and processes.
- **Foster an endogenous process:** One of the cardinal rules of local development is that it should be a locally-driven process. Donor agencies should act as facilitators and nodes in a widening network of connections the local governments may have

with other actors. The challenge, however, is to strengthen local ownership and avoid a level of involvement that can induce dependency. It also means restructuring the system of donor assistance allocation to strengthen the incentives for self-help.

- **Coordinate efforts:** In the context of their assistance programs, donors have the opportunities to support the development of many of the building blocks in local strategy. Therefore, it is critical that donors find the best way to complement these efforts. Better communication and sectoral coordination would improve the coherence of external assistance; thereby enhancing its overall effectiveness.

## 8. CONCLUSIONS AND SUMMARY OF RECOMMENDATIONS

The evaluation of planning and implementation of local development strategic plans in cities and towns, both large and small, across Moldova over the past 5 years highlights that successful intervention most often relates to:

- degree and consistency of local leadership
- organization of effort and clarity of procedures;
- availability of resources
- skill and will of the implementing personnel
- collaboration with multiple stakeholders
- past experience with similar programs/projects.

In parallel, the evaluation sheds light on a number of key features of current strategic planning and implementation practices of local governments in Moldova, as outlined below:

- The understanding of local strategic planning development and implementation varies considerably. However, it has evolved over the past few years into a more comprehensive understanding of concepts and tools to be applied in addressing local needs and problems.
- Institutional arrangements in support of implementation of LED components of the local development strategic plans—although varying from community to community—are inefficient and ineffective.
- Implementation processes have started unevenly.
- While there are exceptions, implementing personnel lack both competence and the drive to be effective in moving forward with new approaches.
- There is a considerable variation in local budgets devoted to project implementation between larger cities with more resources and capacity and smaller urban areas, but in all instances funding is insufficient to cover initiatives' size, scale, and ambition.

- LED projects, other than small infrastructure projects aimed at quick improvements in the provision of basic services, are not among implementation priorities.
- Monitoring and evaluation methods are nearly absent or grossly ineffective in almost all cases.
- Although partnerships are critical, interactions with the private sector and other stakeholders are limited and constrain the potential of LED.

Nevertheless, formulating local development strategies and implementing projects to support the achievement of goals has been an important exercise from which lessons now need to be drawn.

In refining local policy agendas and furthering the efforts towards best trajectories of development, this paper finds optimizing LED components of the current local development strategic plans the best vehicle presently available. This should be done with the intent of achieving an integrated local development strategy in the future.

To ease and eventually accelerate the implementation of this policy option, this paper outlines a set of policy recommendations addressed for local and central governments as well as donors.

For local governments recommendations include:

- establish a LED Unit within city hall
- review LED components of existing local development strategic plans
- strengthen the link between LED strategy and the budget
- involve stakeholders in the budgeting process
- establish a strong political process to back up LED
- ensure active, meaningful, and continued involvement of stakeholders in support of LED
- build local capacity
- set up and use an effective participatory M&E system
- collaborate across boundaries
- establish effective relationships with the central government.

Moldova would also benefit from the concerted efforts of central government bodies in shaping an environment conducive to local development designed around three pillars: a good legal basis, stable and independent sources of revenue for local governments, and long-term investment in human resources. Last but by no means least, donors can contribute to the development process by continuing to support local governments and better coordinating their efforts.

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## ANNEX 1.

## Local Development Plans: General Overview

#	City/town	Title of the Plan	Term	Donor	Approved by Municipal Council (including updates)	Form of Public Consultation	Implementation	M&E
1.	Bălți	Socioeconomic Development Plan	2001–2010	USAID	2001; No Decision 23.12.2004; Decision	Public Hearings	Mayor; Cross-team	No
2.	Cahul	Sustainable Development Plan	2002–2022	UNDP	14.11.2002; Decision #12/1	Forum	Local Coordination Unit supported by the donor agency	Elements
3.	Soroca	Sustainable Development Plan	2004–2024	UNDP	2003; No Decision 08.04.2004; Decision #7/21 17.12.04; Decision	Forum	Local Coordination Unit supported by the donor agency	Elements
4.	Ungheni	Sustainable Development Plan	2000–2020	UNDP	18.05.2001	Forum	Local Coordination Unit supported by the donor agency	Elements
5.	Orhei	Sustainable Development Plan	2002–2015	UNDP	10.12.2002; Decision #31/7	Forum	Local Coordination Unit supported by the donor agency	No
6.	Comrat	Socioeconomic Development Plan	2005–2009	USAID	25.02.2005; Decision #2/75 22.12.05; Decision	Public Hearings	Mayor; Cross-team	No
7.	Cheadir Lunga	Socioeconomic Development Plan	2001–2005	USAID	21.12.2001; Decision #5/3 27.02.2003; Decision 16.03.05 Decision	Public Hearings	Mayor; Cross-team	No
8.	Strașeni	Socioeconomic Development Plan	2003–2007	USAID	21.08.2002; Decision 17.12.2003; Decision #7/05 23.08.06; Decision	Public Hearings	Mayor; Cross-team	No

#	City/town	Title of the Plan	Term	Donor	Approved by Municipal Council (including updates)	Form of Public Consultation	Implementation	M&E
9.	Causeni	Socioeconomic Development Plan	2003–2007	USAID	16.10.2003; Decision #5/1	Public Hearings	Mayor, Cross-team	No
10.	Drochia	Socioeconomic Development Plan	2002–2006	USAID	24.04.2002; Decision #4/1; 14.12.05; Decision	Public Hearings	Mayor, Cross-team	No
11.	Vucanesti	Socioeconomic Development Plan	2003–2007	USAID	28.08.2003; Decision #5	Public Hearings	Mayor, Cross-team	No
12.	Durlesti	Socioeconomic Development Plan	2005–2010	USAID	28.12.05 Decision 27.01.2006; Decision #1/1	Public Hearings	Mayor, Cross-team	No
13.	Hîncești	Socioeconomic Development Plan	2005–2015	USAID	2001, No Decision 22.12.2004; Decision #14/06	Public Hearings	Mayor, Cross-team	No
14.	Rezina	Socioeconomic Development Plan	2002–2007	USAID	02.10.2002; Decision #7/2 2003; No Decision 02.03.05; Decision	Public Hearings	Mayor, Cross-team	No
15.	Ialoveni	Socioeconomic Development Plan	2001–2015	USAID	06.04.01; No Decision 2002, No Decision 22.12.2004; Decision #16/08 03.02.2005; Decision	Public Hearings	Mayor, Cross-team	No
16.	Falesti	Socioeconomic Development Plan	2002–2008	USAID	27.09.2002; Decision 31.03.05; Decision	Public Hearings	Mayor, Cross-team	No
17.	Cimislia	Socioeconomic Development Plan	2001–2007	USAID	24.05.2001; Decision #6/2 2002; No Decision 2003; No Decision 18.05.05; Decision	Public Hearings	Mayor, Cross-team	No
18.	Călărași	Socioeconomic Development Plan	2001–2004	USAID	20.11.2001 Decision #07/03 18.07.03; Decision	Public Hearings	Mayor, Cross-team	No



#	City/town	Title of the Plan	Term	Donor	Approved by Municipal Council (including updates)	Form of Public Consultation	Implementation	M&E
19.	Taradlia	Socioeconomic Development Plan	2004–2008	USAID	14.12.2004; Decision #2/7 28.12.05; Decision	Public Hearings	Mayor, Cross-team	No
20.	Singerei	Socioeconomic Development Plan	2002–2005	USAID	14.08.2002; Decision #31/1 2003; No Decision 30.01.04; Decision	Public Hearings	Mayor, Cross-team	No
21.	Floresti	Sustainable Development Plan & Socioeconomic Development Plan	2003–2015	UNDP & USAID	22.08.2002; Decision #07/01	Public Hearings	Local Coordination Unit supported by the donor agency	Elements
22.	Nisporeni	Socioeconomic Development Plan	2002–2007	USAID	22.08.02; Decision 05.12.03; Decision	Public Hearings	Mayor, Cross-team	No
23.	Singera	Socioeconomic Development Plan	2002–2007	USAID	18.09.2002; Decision #5/1 2003; No Decision 21.08.04; Decision	Public Hearings	Mayor, Cross-team	No
24.	Basarabasca	Socioeconomic Development Plan	2003–2006	USAID	04.11.2003; Decision #4/1	Public Hearings	Mayor, Cross-team	No
25.	Glodeni	Socioeconomic Development Plan	2005–2010	USAID	30.09.03; Decision 26.10.2005; Decision #7	Public Hearings	Mayor, Cross-team	No
26.	Leova	Socioeconomic Development Plan		USAID	27.09.02; Decision 06.02.04; Decision	Public Hearings	Mayor, Cross-team	No
27.	Cricova	Socioeconomic Development Plan	2000–2015	USAID	13.02.2002; Decision 2003; No Decision	Public Hearings	Mayor, Cross-team	No
28.	Donduseni	Socioeconomic Development Plan	2003–2008	USAID	24.12.2003; Decision #7/4	Public Hearings	Mayor, Cross-team	No

#	City/town	Title of the Plan	Term	Donor	Approved by Municipal Council (including updates)	Form of Public Consultation	Implementation	M&E
29.	Ocnita	Socioeconomic Development Plan	2003–2008	USAID	20.01.2003; Decision 08.09.05; Decision	Public Hearings	Mayor, Cross-team	No
30.	Briceni	Socioeconomic Development Plan	2003–2007	USAID	24.12.2003; Decision #5/11	Public Hearings	Mayor, Cross-team	No
31.	Otaci	Socioeconomic Development Plan	2005–2010	USAID	07.10.05; Decision	Public Hearings	Mayor, Cross-team	No
32.	Telenesti	Socioeconomic Development Plan	2005–2010	USAID	11.11.2005; Decision #7/11	Public Hearings	Mayor, Cross-team	No
33.	Anenii Noi	Socioeconomic Development Plan	2002–2003	USAID	05.03.2002; Decision #23/3 14.03.03; Decision 17.08.04; Decision 09.12.04; Decision	Public Hearings	Mayor, Cross-team	No
34.	Canemir	Socioeconomic Development Plan	2003–2010	USAID	20.02.2004; Decision 03.02.05; Decision 25.05.05; Decision	Public Hearings	Mayor, Cross-team	No
35.	Vadul lui Voda	Socioeconomic Development Plan	2004–2008	USAID	19.10.2004; Decision #13/2 18.10.05; Decision	Public Hearings	Mayor, Cross-team	No
36.	Comesti	Socioeconomic Development Plan	2003–2008	USAID	2003; No Decision 17.02.2004; Decision #2/7 2005; No Decision	Public Hearings	Mayor, Cross-team	No

## ANNEX 2.

## Local Development Plans by Objective

		Economic Development	Hard Infrastructure	Local Governments Operations	Transparency	Environment	Public Safety	Health	Social Protection	Education	Culture/sport/Youth	TOTAL
1.	Bălți	5	6	1	—	4	1	1	—	1	2	21
2.	Cahul	9	1	—	2	2	—	1	—	—	—	15
3.	Soroca	13	7	—	3	5	—	—	2	4	—	34
4.	Ungheni	5	5	3	1	1	—	1	2	3	—	21
5.	Orhei	9	5	4	—	3	—	1	1	1	—	25
6.	Comrat	5	10	5	1	11	1	5	7	5	6	55
7.	Ceadir Lunga	8	6	—	1	4	1	—	1	3	1	25
8.	Strășeni	6	8	—	1	7	—	—	4	1	1	28
9.	Causeni	6	10	—	—	1	—	—	1	—	—	18
10.	Drochia	12	10	5	4	6	5	—	1	—	1	44
11.	Vulcanesti	6	6	—	—	3	—	—	1	—	1	17
12.	Durlesti	5	9	—	1	—	1	1	1	—	6	24
13.	Hîncești	—	11	—	—	7	—	—	—	3	3	24
14.	Rezina	5	11	—	2	4	—	1	—	3	1	27
15.	Ialoveni	6	11	11	10	3	—	—	—	1	—	42
16.	Falesti	8	7	—	—	2	1	1	1	1	1	21
17.	Călărași	7	8	—	6	9	—	—	—	8	5	43
18.	Cimislia	10	11	9	7	11	7	—	4	—	1	60
19.	Taraclia	4	3	—	—	5	—	—	1	—	—	13
20.	Singerei	6	7	—	5	6	—	—	1	3	2	30
21.	Floresti	5	13	3	9	4	—	—	4	—	—	38
22.	Nisporeni	5	8	—	—	4	—	—	—	1	1	19
23.	Singera	6	8	—	1	5	1	1	2	5	—	29

		Economic Development	Hard Infrastructure	Local Governments Operations	Transparency	Environment	Public Safety	Health	Social Protection	Education	Culture/sport/Youth	TOTAL
24.	Basarabeasca	3	3	3	1	2	—	1	1	—	2	16
25.	Glodeni	3	4	—	1	1	—	—	1	1	1	12
26.	Leova	3	7	—	—	4	—	1	1	1	2	19
27.	Cricova	4	8	—	1	4	1	1	1	1	1	22
28.	Donduseni	2	5	1	4	2	—	—	1	—	2	17
29.	Ocnita	6	6	—	—	2	—	—	1	1	—	16
30.	Briceni	8	4	—	—	4	—	1	—	1	1	20
31.	Otaci	6	10	—	5	4	—	1	—	1	2	29
32.	Telenesti	4	9	4	1	2	—	1	—	2	3	26
33.	Anenii Noi	5	7	—	1	4	4	—	—	—	3	24
34.	Cantemir	3	3	—	2	2	—	—	1	—	1	12
35.	Vadul lui Voda	10	26	6	6	—	—	—	5	17	17	87
36.	Cornesti	10	6	1	—	4	—	1	2	2	6	32
TOTAL, percent		21.69	27.76	5.57	7.56	14.13	2.29	1.99	4.78	6.97	7.36	100

## ANNEX 3.

## Soft Infrastructure Components by Objective

Cornesti	x					X	
Vadul lui Voda			x			x	
Cantemir		x			x		
Anenii Noi	x		x		x		
Telenesti	x				x		
Otaci	x	x	x		x	x	x
Briceni		x	x	x	x	x	
Ocnita	x			x			
Donduseni				x			
Cricova		x	x			x	
Leova			x				
Glodeni		x	x	x		x	
Basarabeasca		x		x			
Singera			x				
Nisporeni	x	x		x		x	
Floresti		x	x				
Singerei		x	x	x	x		
Taraclia		x	x		x		
Cimislia	x	x	x				
Călărași	x	x	x				
Falesti	x	x	x		x		x
Ialoveni		x	x				
Rezina	x	x	x	x	x	x	
Hîncești							
Durlesti	x	x	x				
Vulcanesti		x	x		x		
Drochia			x				x
Causeni	x	x	x				
Strășeni			x				
Cheadir Lunga	x	x	x	x	x	x	x
Comrat			x				
Orhei		x	x	x		x	
Ungheni		x	x	x	x	x	x
Soroca		x	x			x	
Cahul		x		x	x	x	x
Bălți	x	x	x	x			
	Developing and/or expanding agriculture	Small and medium-size business development	Attracting investments	Increasing industrial efficiency	Employment and job creation	Tourism promotion	Establishing a free economic zone

Cornesti	x					x
Vadul lui Voda					x	x
Cantemir						x
Anenii Noi		x				
Telenesti						
Otaci		x	x	x		x
Briceni					x	x
Ocnita						
Donduseni						x
Cricova		x	x			x
Leova			x			x
Glodeni			x			x
Basarabasca						
Singera			x			x
Nisporeni					x	
Floresti						
Singerei		x				
Taraclia					x	x
Cimislia						x
Călărași	x				x	x
Falesti			x		x	x
Ialoveni				x		x
Rezina						
Hîncești						
Durlesti					x	
Vulcanesti						
Drochia			x			x
Causeni	x		x			x
Strășeni	x					
Cheadir Lunga	x		x	x	x	x
Comrat			x	x		
Orhei	x			x		x
Ungheni		x	x			x
Soroca	x		x			
Cahul				x		x
Bălți			x			
	Providing fiscal incentives	Efficient use of local resources and geographic location	Enabling or providing skills training	Providing business advisory services	Supporting the development of businesses and trade associations	Supporting the development of business information and/or marketing centers

Cornesti		x	x		
Vadul lui Voda					x
Cantemir			x	x	x
Anenii Noi			x		
Telenesti					
Otaci					
Briceni			x	x	
Ocnita					
Donduseni			x		
Cricova			x		
Leova					x
Glodeni		x	x		
Basarabasca			x		x
Singera			x	x	x
Nisporeni			x		
Floresti			x	x	x
Singerei			x		x
Taraclia		x			
Cimislia			x	x	
Călărași					
Falesti			x		
Ialoveni			x		x
Rezina					
Hincești					
Durlesti					
Vulcanesti					x
Drochia			x	x	x
Causeni					
Strășeni			x	x	
Cheadir Lunga		x	x		x
Comrat		x			
Orhei			x	x	x
Ungheni			x	x	x
Soroca					x
Cahul		x	x	x	
Bălți					
	Improving delivery of local government services to businesses	Implementing new technologies	Assessing local economic potential	Formulating a local economic development program	Promoting city/ town image

## ANNEX 4.

## Hard Infrastructure Components by Objective

Cornesti	x	x	x	x	
Vadul lui Voda	x	x		x	
Cantemir	x	x	x		x
Anenii Noi	x	x	x		x
Telenesti	x	x	x	x	
Otaci	x	x		x	
Briceni	x	x	x		
Ocnita	x	x	x		x
Donduseni	x			x	x
Cricova	x	x		x	x
Leova	x		x	x	
Glodeni			x		x
Basarabasca	x				
Singera	x		x	x	x
Nisporeni	x			x	x
Floresti	x	x		x	x
Singerei	x	x	x	x	
Taracalia	x				x
Cimislia	x	x	x	x	x
Călărași	x	x		x	x
Falesti	x		x	x	x
Ialoveni	x		x	x	x
Rezina	x	x		x	x
Hîncești	x		x	x	
Durlesti	x	x	x	x	
Vulcanesti	x		x		x
Drochia	x	x	x		x
Causeni	x	x		x	x
Strășeni		x	x		x
Cheadir Lunga	x	x			x
Comrat			x	x	
Orhei	x				x
Ungheni	x		x	x	
Soroca	x	x	x	x	x
Cahul	x	x			x
Bălți	x		x		x
	Increasing the availability of potable water	Improving and/or expanding the sewerage disposal system	Improving solid waste management system	Building and/or extending gas service supply system	Building and/or extending alternative heating services



Cornesti		x			
Vadul lui Voda	x	x	x	x	x
Cantemir	x	x		x	
Anenii Noi	x				
Telenesti	x	x			x
Otaci	x	x			x
Briceni	x				
Ocnita	x				
Donduseni	x				
Cricova	x		x		x
Leova	x	x			
Glodeni	x	x			
Basarabasca					
Singera	x			x	x
Nisporeni	x	x		x	
Floresti	x	x	x	x	x
Singerei	x	x			
Taraclia					
Cimislia	x			x	
Călărași	x	x			x
Falesti	x				
Ialoveni	x		x		x
Rezina	x			x	
Hîncești	x	x			x
Durlesti	x				x
Vulcanesti		x			x
Drochia	x				
Causeni	x			x	x
Strășeni	x	x	x		
Cheadir Lunga	x	x		x	
Comrat	x	x			x
Orhei					
Ungheni	x				x
Soroca	x		x		
Cahul	x				
Bălți	x	x		x	x
	Building and/or improving key access roads	Improving and/or expanding street lighting	Extending electric network	Developing, improving, and/or expanding commercial sites and buildings (offices, shops)	Developing, improving, and/or expanding municipal and inter-urban transportation

Cornesti		
Vadul lui Voda		
Cantemir		
Anenii Noi		
Telenesti		
Otaci		
Briceni		
Ocnita		
Donduseni		
Cricova		
Leova		x
Glodeni		
Basarabasca		
Singera		
Nisporeni	x	x
Floresti		
Singerei		
Taracalia		
Cimislia		
Călărași		
Falesti		
Ialoveni		
Rezina		
Hîncești		
Durlesti		
Vulcanesti		
Drochia		
Causeni	x	
Strășeni		
Cheadir Lunga		
Comrat		x
Orhei		
Ungheni		
Soroca		
Cahul		
Bălți		
	Building or improving the railway for pas- sengers or goods	Building hotel

## ANNEX 5.

### Interview Guide

- What are the goals and concept of the local development strategic plan? Are they based on feasible practices? If not, in what respect?
- In your opinion, what are the most important goals/components (economic, social, etc.) of the local development strategic plan? Why?
- In your opinion, is the local development strategic plan carried out in your community as planned?
- What levels are needed to manage the implementation process of the local development strategic plan? Is there a plan of implementation or an action plan developed? What is the content of the plan?
- What are the local demographic (population, educational levels, age), economic and social (unemployment, formation), business (initiate a business, entrepreneur registration), infrastructure (hard and soft), cultural, and political environments in which the local development strategic plan is implemented?
- How (in what ways) does the environment (internal and external factors) influence the implementation process of the local development strategic plan and its outcomes? In your opinion, what are the main factors?
- How (in what ways) is the national environment affecting the implementation process of the strategic plan at the local level and especially in your city/town?
- What are the legal and/or administrative requirements guiding the implementation process of the strategic plan at the local level? What are the sources of the requirements, what are the divisions/ bodies that developed these requirements? How do the requirements facilitate and/or hamper the implementation process?
- Is there any division or body within the local government with clearly defined responsibilities and duties to carry out the implementation of the local development strategic plan? If yes, what is the role and importance of that division or body? What is the organizational structure of the division? Who and how does the division report about its activity? What are the responsibilities/duties of the personnel? How is the performance of the division personnel assessed? Who is the head of the unit and what are his/her authorities?
- If such a division was not established within the local government, is there any such division or body at the community level? Is there any local agency or organization responsible for the implementation of the local development strategic plan? If yes, how does this agency coordinate both public and individual efforts?
- Were the educational requirements/needs of the personnel of this division identified? Did they attend any training courses? If yes, which ones and what organization organized and financed the training courses? How frequently are such courses

organized? What are the educational needs of the personnel? How often would you like to attend this kind of training courses?

- How is the political process planned on the local level? Does the local council endorse the local development strategic plan? Are there any reporting techniques or mechanisms that the members of the local council apply to report about the decisions they make? How do local council members get involved in the implementation of the local development strategic plan?
- How did the stakeholders participate in the decision-making process and how often? What are the principal and/or the most influential groups of actors?
- What are the main stakeholders partaking in the implementation process of the local development strategic plan? How do the actors get involved in the process? For the implementation of what kind of projects?
- How is the communication between the local government, the implementation division, and the stakeholders established and maintained?
- Is there any formal stakeholders' structure? If yes, what is the role of the association? How often do the members meet? Is there any reporting mechanism?
- What are the relations between different levels of public authorities: local, regional, and central? How would you like to see this relationship? In your opinion, what are the advantages of collaboration between public authorities? In what field?
- What types of resources (sources of the resources) does the implementation process require? How are the resources (financial, human, technical) necessary for the implementation of the local development strategic plan distributed and/or collected? Are the resources distributed as planned? In your opinion, what types of resources are needed to ensure the implementation process? What resources are limited and/or lacking? Why?
- Are the requirements for the resources needed for the implementation process likely to be met, given its budget, available resources, and resources to be developed? If not, how and why? How can the needed resources be garnered and who may garner them?
- How many and what types of projects have been implemented so far? Why? What types of projects do you think are a priority for the community's development? Why? What are the main factors influencing the successful implementation of projects?
- How many projects have failed and why? How could such results be avoided?
- What are the projects that have not been implemented by now? Why? What types of resources do you need to implement the projects?
- How is the implementation process monitored and evaluated? By whom? What resources are needed to develop a good monitoring and evaluation? How should the review be planned?
- How can the implementation process of the local development strategic plan be improved to attain its goals?

## ANNEX 6.

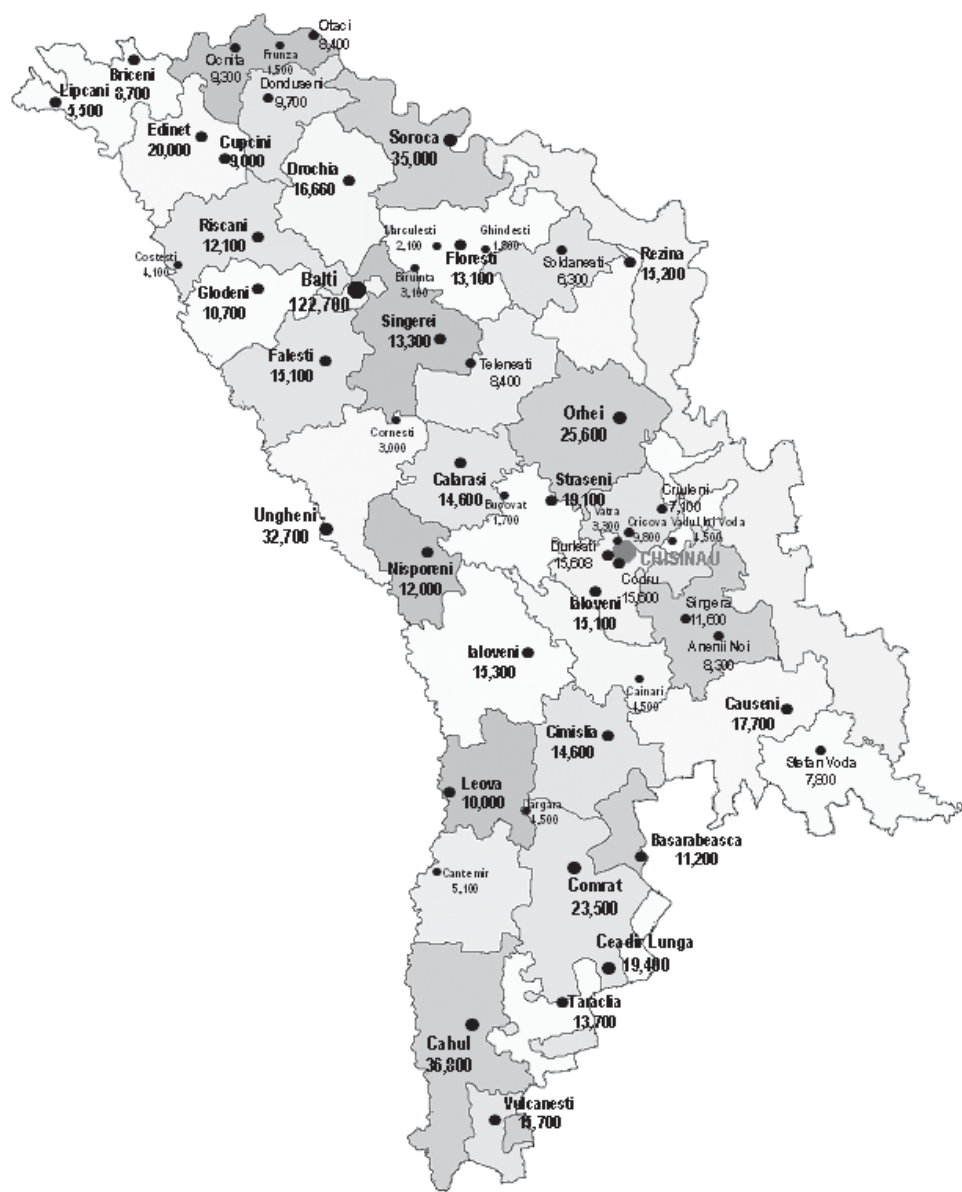
### List of Interviewees

Duane C. Beard	Chief of Party, USAID Local Government Reform Project
Elena Burcataya	Balti Deputy Head, International Relations Department
Andrei Cantemir	Democracy and Governance Senior Specialist, USAID Local Government Reform Project
Liliana Caruță	Ex-Director of Cahul Coordination Unit Local Agenda 21
Victor Ceban	Director of Ungheni Water Utility
Svetlana Ciobanu	Director of Ungheni Coordination Unit Local Agenda 21, Rayon Council Member
Ilie Ciocan	Deputy Mayor of Ungheni
Sergiu Cladco	Director of Ungheni Chamber of Commerce and Industry
Ludmila Covalenco	Director of Cahul Coordination Unit Local Agenda 21
Snejana Cvasnei	Expert, Academy of Public Administration
Tudor Deliu	Expert, Academy of Public Administration
Nicolai Dodon	Bălți Senior Specialist, Architecture and Urbanism Department
Maria Dranicer	Chief Finance Officer, Călărași Mayor's Office
Mihai Formuzal	Mayor of Cheadir Lunga
Gheorghe Ghițiv	Deputy Mayor of Cahul
Anatolii Gudîm	Executive Director, Center for Strategic Studies and Analysis
Lilia Guțul	Deputy Mayor of Bălți
Veaceslav Guțuțui	Expert, Strategic Planning Facilitator, Business Consulting Institute
Valentin Guznac	Deputy Mayor of Bălți
Eugen Hristev	Senior Public Finance Specialist, USAID Local Government Reform Project
Serdiuc Irinia	Bălți Local Council Secretary

Ghenadie Ivașenco	Executive Director of Moldova Habitat Center, Editor in Chief of Urban Moldova Magazine
Petru Larga	Ungheni Local Council Secretary
Anatol Moldovanu	Mayor of Ialoveni
Constantin Nunu	Expert, Strategic Planning Facilitator, Business Consulting Institute
Eugen Osmochescu	Senior Manager, Policy and Regulatory Reform Department, USAID Small and Medium Business Development Project, Bizpro
Vasile Panciuc	Mayor of Bălți
Violeta Petrea	Consultant of Ungheni Coordination Unit Local Agenda 21, Local Council Member
Vasile Petrenco	Executive Director of Cahul Entrepreneurs Association, Local Council Member
Semion Platon	Director of Cahul Chamber of Commerce and Industry, Local Council Member
Aurel Puica	Balti Senior Specialist, International Relations Department
Mihai Roscovan	Executive Director, Business Consulting Institute
Victor Rusu	Mayor of Nisporeni
Sergiu Scutaru	Executive Director of Ungheni Free Economic Zone
Elvira Sennic	Editor-in-Chief, <i>Goloss</i> Balti newspaper
Ion Șerban	Mayor of Orhei
Constantin Stratulat	Director of the Ungheni Regional Center of the USAID Citizen Participation Project, Ex-advisor of Ungheni Mayor
Silvia Strelciuc	Director of Cahul Contact Regional Center
Iurie Țap	Mayor of Floresti
Evdochia Viziru	Ungheni, Rayon Council Member
Vitalie Vrabie	Minister of Local Public Administration, Ex-Mayor of Ungheni
Vasile Zagorodnîi	Mayor of Cahul

ANNEX 7.

Moldovan Cities and Towns: Geographic Distribution



## ANNEX 8.

## Questionnaire and Methodology

Q1. *How important is the local development strategic plan to your work as a mayor?*

Very important	1
Important	2
Of little importance	3
Not important	4
Don't know/don't wish to answer	9

Q2. *Who is responsible for implementing the local development strategy?*  
(Please provide one answer only)

The mayor	1
Department officials	2
A coordination unit	3
Civil society	4
Economic agents	5
Citizens	6

Q3. *Have you drawn up an action plan to help implement the strategic plan?*

Yes	1
No	2
Don't know/don't wish to answer	9

Q4. *How many strategic plan projects have you implemented to date?*  
(Please provide one answer only)

None	1
Up to three projects	2
Up to five projects	3
Up to ten projects	4
More than ten projects	5



Q5. *Please list below the strategic plan projects that have been implemented. Please also indicate the field in which the projects were implemented.*

Name of the Project				Field of Activity			
a)				a)			
b)				b)			
c)				c)			
d)				d)			
e)				e)			
f)				f)			
g)				g)			
h)				h)			
i)				i)			
j)				j)			

*Note: Use additional sheet if needed.*

Q6. *Do you take account of the strategic plan when drawing up the local budget?*

Yes 1  
No 2

Q7. *What is the amount allocated for the implementation of the strategic plan projects from the local budget?*

None 1  
Less than 100,000 lei 2  
From 100,000 to 300,000 lei 3  
From 300,000 to 500,000 lei 4  
From 500,000 to 1 million lei 5  
1 million lei or more 6

Q8. *Whose opinions do you take into account when taking decisions related to the implementation of your town or city's development plan?*

a)			
b)			
c)			
d)			
e)			

Q9. *When implementing strategic plans, which of the following do you most rely on? (please provide one answer only)*

Local budget resources	1
Funds transferred from the central government or the district authorities	2
Donor agencies	3
Contributions from local economic agents	4
Contributions from citizens	5

Q10. *How often do you convene meetings to discuss progress made in strategic plan implementation? (please provide one answer only)*

Once a month	1
Once a trimester	2
Once a semester	3
Once a year	4
Depending on the need	5
Don't convene a meeting	6

Q11. *How often do you review and update the strategic plan?*

Once a trimester	1
Once a semester	2
Once a year	3
Depending on the need	4
Other	5

Q12. *To what extent do the factors indicated below hinder you in carrying out the proposed projects when implementing the local development strategy?*

	To a very large extent	To a large extent	Little	Not at all
a) cultural factors (mentality, attitude)	1	2	2	3
b) lack of knowledge and skills	1	2	2	3
c) insufficient financial resources	1	2	2	3
d) insufficient personnel	1	2	2	3
e) political barriers	1	2	2	3
f) other (please specify) _____	1	2	2	3

Q13. *What are the advantages of the local development strategy implementation for your town/city?*

a)			
b)			

Q14. *To what extent do you feel the implemented programs/projects have changed life in your town/city?*

- To a very large extent 1
- To a large extent 2
- Little 3
- Not at all 4
- Don't know/don't wish to answer 9

Q15. *What is the current priority area for your town or city's development?  
(please provide one answer only)*

- Economic 1
- Social 2
- Educational 3
- Cultural 4
- Environmental 5
- Other (please specify): \_\_\_\_\_ 

--	--
- Don't know/don't wish to answer 9

H4. *Please use the space below to provide further information about the local strategy implementation process in your town/city.*


Town/city: \_\_\_\_\_  
Date: \_\_\_\_\_

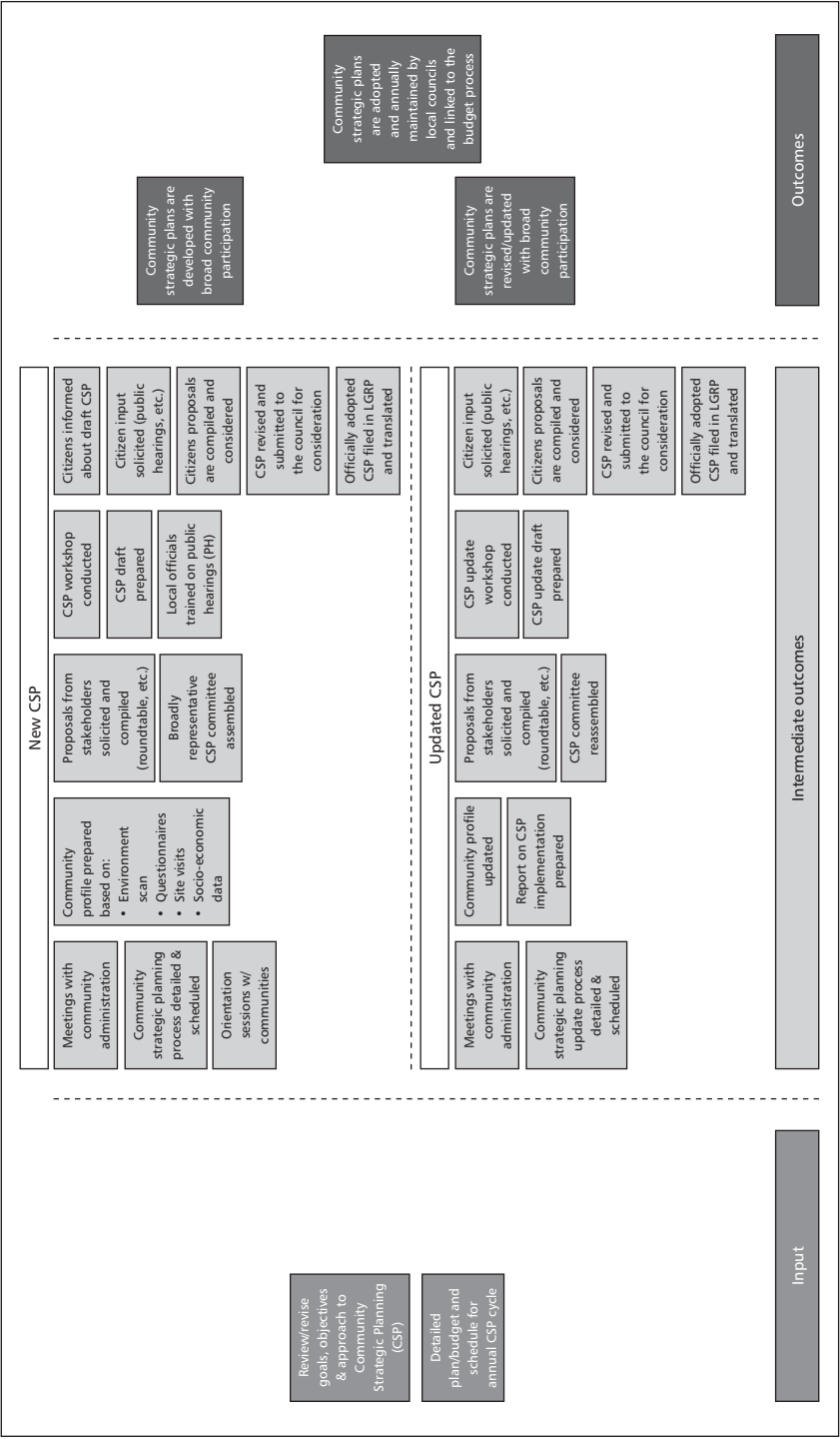
Thank you for filling in this questionnaire!

## Sample structure

Variable	Group	Number
City/town	Less than 7,000 inhabitants	12
	<12,000 inhabitants	12
	<16,000 inhabitants	11
	>16,000 inhabitants	10
Sex	Male	39
	Female	5
Age	34–50 years	22
	51–70 years	21
Nationality	Moldovan/Romanian	30
	Russian	3
	Ukrainian	6
	Gagauz	3
	Other	3
<b>Total</b>		<b>45</b>

ANNEX 9.

Strategic Planning Logical Framework



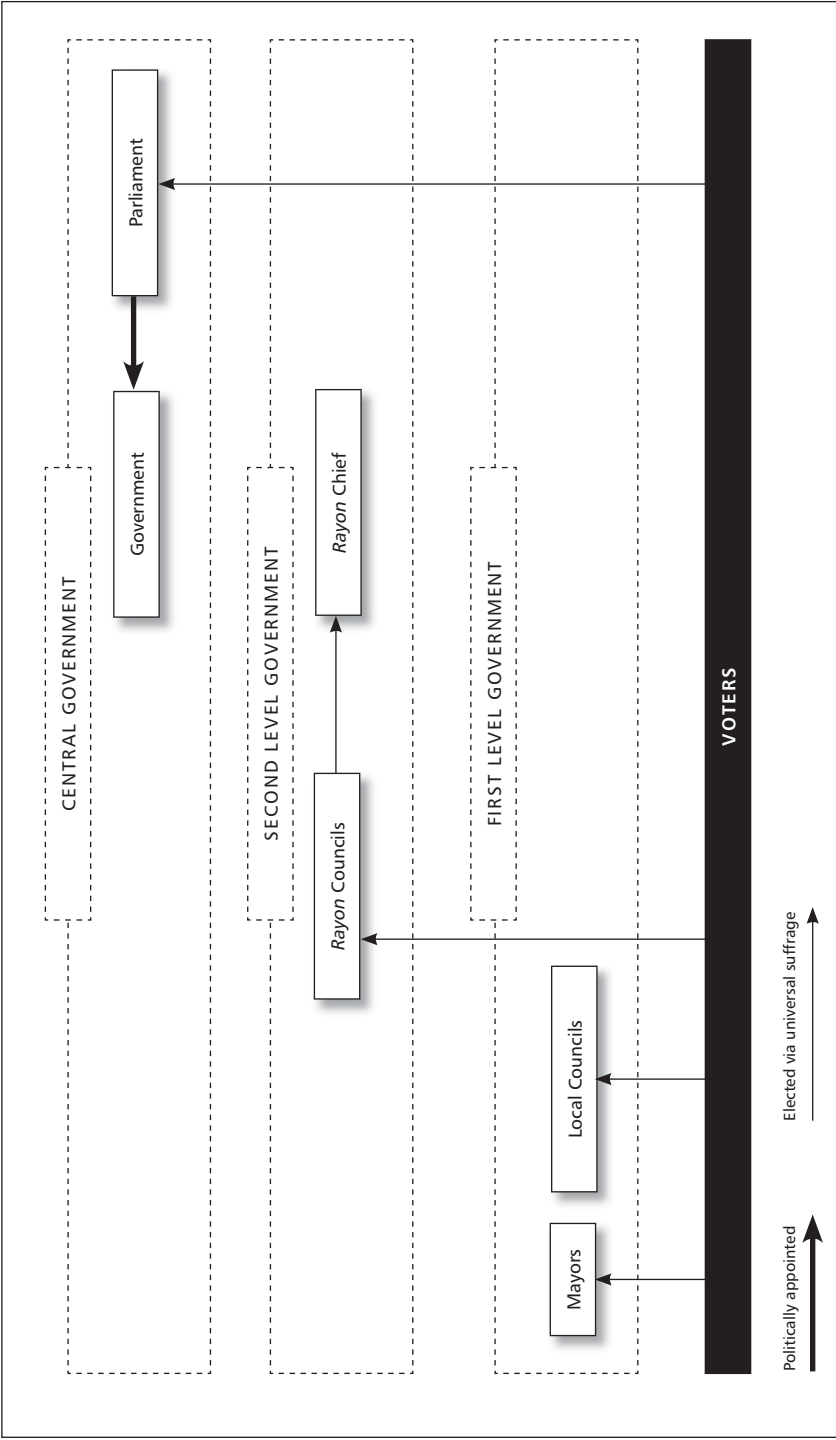
## ANNEX 10.

## List of Implemented Projects

• Building/major repairs of a school/kindergarten/lyceum/residential buildings	30
• Building/extending/repairing water mains/sewage system	30
• Building/extending gas mains	24
• Town/city development, improvement of sanitary conditions, and tree planting in the city/town, and environment improvement activities	25
• Repairing/building streets and roads	18
• Obtaining requisite equipment for institutions	11
• Decentralizing heating system/self-standing heating	8
• Obtaining special-purpose vehicles for waste transportation	8
• Developing/building storage for solid waste	7
• A rehabilitation center for old people	7
• A resource center for young people	5
• Setting up a child guidance and family counseling center and a family planning center	4
• Setting up a recreation center for children	3
• Drawing up an urban development plan	3
• Opening an internet room	2
• Opening a center for parents and children	2
• Opening camps for children	2
• Transparency and information sharing	2
• Opening a center for women	2
• Setting up a center for disabled children	1
• Setting up a center for young people at risk	1
• Opening a law center	1
• Setting up a center for prevention of trafficking in women	1
• Opening a hospital	1
• Opening a gym	1
• Opening an ethnic relations development center	1
• Obtaining passenger transport	1
• Opening a hotel	1
• Putting up road signs	1
• Opening a regional museum	1
• Building a monument to Stefan cel Mare (Stephen the Great)	1
• Installing cable television	1
• Setting up a free economic zone	1
• Cross-border cooperation (Business Support Center)	1
<b>Total</b>	<b>208</b>

ANNEX 11.

Moldova's System of Local Government



## ANNEX 12.

## Moldova's Legal Framework for Local Government

#	Law	
1.	Constitution of the Republic of Moldova (1994)	Art. 109 legitimates the pillars of genuine local governance: local autonomy, elections of public officials, decentralization of municipal services, and citizens' consultation on issues of major interest for the community. Art. 110 maintains the soviet system of 2 <sup>nd</sup> level government.
2.	European Charter of Local Self-Governance (1985) <sup>22</sup>	
3.	Law on Local Taxes and Fees (1994 with subsequent amendments in 2002)	Law lists a total of 15 local taxes and fees and stipulates legal conditions under which local governments are entitled to decide on tax rates, levy, and/or facilities. The maximum threshold of taxes/fees is the prerogative of Parliament.
4.	Law on the Special Status of Gagauz-Yeri Autonomous Territorial Unit (1994)	Law sets up the autonomous administrative unit Gagauz-Yeri as a form to provide self-determination for the Gagauz. Gagauz-Yeri is granted with a special status and broad administrative and political autonomy that covers 30 settlements, including three cities and 23 villages.
5.	Law on Public Service (1995)	Defines the realm of public service and who the public servants are. States the qualification grades for public servants.
6.	Law on Concession (1995)	Defines the scope of the concession, identifies types of concession, and delineates the roles and responsibilities of national and local governments in the process of concession.
7.	Statute of Chişinău Municipality (1995, with subsequent amendments in 2002).	Sets boundaries of Chişinău municipality, identifies the types of local property, and defines the mechanism of financial relations with the national government.
8.	Law on Public Property of Administrative Territorial Units (1999)	Delimits state and local public property by type and guarantees local governments the right to public patrimony.
9.	Fiscal Code. Titles VI and VII (2000)	States the approach and the role of local authorities in setting up land and property taxes.



#	Law	
10.	Law on the Statute of Locally Elected Officials (2000)	Legitimizes the status of publicly elected official; defines their roles and responsibilities.
11.	Law on Administrative and Territorial Organization (2001)	Replaces 10 <i>judets</i> (as defined by the law of 1998) with 32 <i>raions</i> , and 636 jurisdictions with 903.
12.	Law on Local Public Administration (2003)	Restates the basic principles of local governance listed in the Constitution and defines the structure and powers of local governments in Moldova, at both local and <i>raion</i> level. The language is quite general as far as the functions are concerned, enumerating a long list of authorities and making very few distinctions between the two levels of local government.
13.	Law on Local Public Finance (2003)	Identifies revenue sources and expenditure assignments; states the principles and mechanism of the (equalization) transfer system.
14	Law on the Budget System and Budgetary Process (2003)	Identifies the elements of the budgetary system, i.e., local budgets, national budget, budget of social insurance, and extra-budgetary funds. Sets the annual budget cycle, which starts on January 1 and ends on December 31.
15.	Law on Municipal Services (2003)	Sets up the framework of creating and delivering municipal services; identifies roles and responsibilities of local governments regarding the operation of municipal utilities.

## ANNEX 13.

## Donor Programs in Local and Regional Development in Moldova

	Donor	Project name	Budget (estimate)	Targets (rural and urban communities, <i>rayons</i> )	Implementation period
1.	DDC	Water and Sanitation	USD 2.25 mln	Nisporeni, Hîncești, Ungheni, Călărași, Strășeni, Leova, Ialoveni.	2001–present
		Small Grants Program for NGOs	total USD 601,000	<i>Rayons</i>	2001–2006
2.	Soros Foundation	Public Administration and Good Governance	USD 350,000 (2006)	Central and Local Public Authorities	1997–2008
		Internet Community Center	USD 782,000	Urban and rural communities	2003–2007
3.	UNDP Moldova	Local Agenda 21	USD 320,000 (2006)	Rural and urban communities	2001–2006
		Sustainable Tourism Development	USD 150,000 (2006)	Rural communities	2001–2006
		Better Opportunities for Youth and Women	USD 2 mln	Small towns	Oct 2004–Sep 2007
5.	DFID	Social Partnerships	USD 16,000	Seven communities	Jan 2006–Dec 2006
6.	USAID	Private Farmer Commercialization	USD 12.5 mln	Rural and urban communities (farmers and farmers associations)	Feb 2001–Aug 2006
		Agrobusiness Development Project	USD 19.3 mln	Rural and urban communities (farmers and farmers associations)	Jun 2004–Jun 2009
		Farmer-to-Farmer—Agriculture Volunteers Program	USD 300,000	Rural and urban communities (farmers and farmers associations)	Sep 1999–Oct 2007
		Local Government Reform Project	USD 11.3 mln	Rural and urban communities	Feb 2000–July 2007
		Citizens Participation Project	USD 10 mln	Rural and urban communities	Sep 2004–Sep 2009

	Donor	Project name	Budget (estimate)	Targets (rural and urban communities, <i>rayons</i> )	Implementation period
7.	EU (TACIS)	Support for the Regional Development Implementing Bodies	EUR 2 mln		Oct 2005–Sept 2007
8.	World Bank	Social Investment Fund II. Swedish Contribution	USD 55.8 mln	Rural and urban communities	1999–present
		Rural Investment and Services Project II. Swedish Contribution—USD 6 mln and World Bank Contribution—USD 15 mln	USD 21 mln	Rural communities	Jun 2006–Jun 2010

## ANNEX 14.

### Ungheni Strategy for Sustainable Development: Project Implementation Status

Strategic project	Objective	Implementation period	Status	Results, comments
1. Launching Free Economic Zone	Attract local and foreign investment. Create new jobs. Promote initiative, especially the development of the small and medium-sized business sector. Boost exports.	2000–2001	Success	Free Economic Zone established in 2002.
2. Establishing business infrastructure	Increase the number of new and profitable businesses. Improve the methods and tools of activity for the local business infrastructure. Provide reliable and regular information on all the opportunities for of regional and inter-regional cooperation. Ensure the implementation of training programs for entrepreneurs on a regular basis.	2001–2005	Success	Ungheni Business Support Center established in 2003.
3. Setting up tourist companies/agencies	Assess the potential of the development of the tourism sector in Ungheni; include the municipality in the list of national and international tourist destinations.	2001–2005	Not started	There were some attempts made to set up a center, but still without success.

Strategic project	Objective	Implementation period	Status	Results, comments
4. Launching the local gas network	Provide Ungheni with natural gas services.	2001–2005	Success (in progress)	The Călărăși-Ungheni gas network running for 48 km and the Sendreni/Nisporeni-Ungheni gas main running for 50 km were both launched. Gas services extended throughout Ungheni for about 45 percent. Project started with a two-year delay due to funds limitations, but it is developing well. Collecting citizens' contribution was a key aspect.
5. Providing the Ungheni municipality with potable water	Improve the supply of potable water to Ungheni residents and meet all the needs of local enterprises.	2001–2005	Success	Running water is provided 24/7. In 2003, Ungheni Water Utility signed a two-year leasing contract with Willo, Romania, to purchase 10 water pump stations for a total of EUR 100,000. In 2005 Ungheni Water Utility successfully applied for a USAID grant for another four pumps totaling approximately USD 16,000.

Strategic project	Objective	Implementation period	Status	Results, comments
6. Building the Ungheni, Moldova–Prut, Romania vehicle bridge	Optimize the traffic of international transport. Make transport spending more efficient and with respect to Romania and other countries.	2001–2004	Not started	This is a complex and large-scale infrastructure project. Potential donors were identified and application was submitted, as yet unsuccessfully. This is a project of both local and national importance. There is a great need to promote lobbying and raise awareness within the Moldovan and Romanian governments about the strategic importance of this project not only for the municipalities of Ungheni and Iași, but also for both countries.
7. Establishing a regional information center	Establish active partnership relations between regions. Ensure the exchange of experience between partners; eliminating obstacles in relations between public institutions and the civil society. Provide reliable and regular information on all the opportunities for regional cooperation. Provide regulation information on and promote the principles of regionalism. Recruit, train, and motivate the employees of local government and NGOs to promote work discipline and principles pertaining to local self-government.	2001–2005	Success	There are several NGOs that cover this activity. In 2005, an NGO alliance was established.

Strategic project	Objective	Implementation period	Status	Results, comments
8. Establishing the Ungheni municipal (regional) information technologies training center	<p>Ensure the excellent qualification of local specialists; Promote modern informational technologies amongst young people with an emphasis on computers.</p> <p>Provide career development courses for the unemployed under a special program designed to meet the town's requirements and needs.</p> <p>Launch websites to promote and expand small and medium-sized businesses, local markets, and other initiatives to boost community development.</p> <p>Apply new information technologies in the economic, social, and environmental sectors to promote the development of small businesses and civil society, to ensure ethnic and social coherence, to cut unemployment rates, and protect the local environment.</p> <p>Promote new information technologies in all types of municipal institutions and organizations.</p>	2001–2003	Success.	Local computer centers established with the support of several donor agencies. The town hall and other public institutions were provided with new equipment due to various technical assistance programs implemented by donor agencies. A number of private internet cafes were launched.
9. Establishing the Ungheni support and rehabilitation center for the elderly	Provide social assistance and health services to the elderly.	2001–2005	Success	The center was launched with a capacity of 40 rooms in 2005.
10. Promoting Ungheni-Iași cross-border cooperation	<p>Identify, assess, and prioritize the opportunities for cross-border cooperation.</p> <p>Make available and spread the results of the assessment.</p> <p>Provide resources to facilitate the participation of the Ungheni Regional Council in the project designed to launch the Ungheni Regional Information Center for Ungheni-Iași Cross-Border Cooperation.</p>	2001–2005	Success	Fruitful cross-border collaboration between municipal and business leaders was established. TACIS EUR 2-million Cross-Border Cooperation Project completed.

Strategic project	Objective	Implementation period	Status	Results, comments
11. Establishing the Regional Resource Center	Establish the organizational principles of collaboration between the policymakers of Ungheni and Iași councils to promote future cooperation and regional development.	2001–2020	Success	Regional Resource Center established. Active collaboration between Ungheni and Iași municipal councils was established under the cross-border cooperation program.
12. Establishing a training (career development), information, and registration center for the personnel of educational institutions	Provide information on education management. Provide teaching, registration, and other supporting materials for all courses, at all levels.	2001–2010	Not started.	A similar center exists within the Department of Education at the <i>raion</i> level.
13. Revamping the Ungheni wastewater treatment facility	Decrease the negative impact of the water discharged from the Ungheni treatment plant into the Prut river, as well as the negative effect it has on the local environment and health.	2001–2005	Started but not completed	Not enough funds secured. The total value of the project is estimated at MDL 5 million. Some repairs amounting to USD 12,000 from the National Environmental Fund and USD 10,000 from REC. The project was finished in 2004.



Strategic project	Objective	Implementation period	Status	Results, comments
14. Modernizing the sludge treatment and pick-up at the Ungheni treatment plant	Reduce the negative effect of sludge accumulated at the Ungheni wastewater treatment plant upon ground and underground waters of the Prut river bed.	2001–2005	Not started	No funds available. No potential donor identified. The total value of the project is estimated at MDL four million.
15. Improving the quality of springwater of the Berești district in Ungheni	Eliminate sources polluting the water of the Berești district spring in Ungheni.	2001	Problematic	The Berești spring and adjacent areas were cleaned and properly arranged, however, the water quality still does not meet standards. The main objective was not reached.
16. Improving the conditions and management of water-recreational areas near Ungheni's town lake	Carry out measures protecting the shores of the Delia river, the town's lake and the Prut river; organize water recreational areas/aqua parks for the residents of Ungheni and surrounding areas/suburbs.	2001–2005	Not started	There were other environmental cleaning measures carried out in these areas, including the local central square, parks, and green spaces, but nothing has been done with respect to lakes and water resources.

## NOTES

- <sup>1</sup> According to Law on Administrative Territorial Division there are a total of 65 urban areas in Moldova. The questionnaire was administered in all urban areas, regardless their size, except those located on the left bank of the Dniester river and Chişinău.
- <sup>2</sup> Although the estimated numbers of Moldovans who have emigrated abroad vary from source to source, it is generally agreed that their number has increased significantly in the last few years. Official sources claim 367,000 migrants as of the third quarter of 2004 (Department of Statistics and Sociology) or up to 600,000 as of August 2004 (Department of Migration). Apart from these two sources, CBS-AXA, a survey agency, estimated a migrant contingent of at least 571,000 at the time of a survey conducted during the period between September and November 2004. However, at the time of the survey, 119,000 families with no members working abroad during 2003–2004 expressed an intention or stated that preparations were underway to send at least one member to work abroad within the next six months to one year. Thus, the migrant potential is estimated to be as high as 690,000 (a migrant contingent of 571,000 plus 119,000 intending to depart for the first time within the next year). In fact, this number amounts to 46.8 percent of the economically active population, which at the end of 2003 was estimated at 1,474,000.
- <sup>3</sup> According to the survey mentioned above, Moldovan migrants transferred to Moldova via official channels an estimated 461 million USD in 2003 (23.5 percent of GDP), a figure that is statistically very close to the National Bank of Moldova's official estimates of USD 484 million reported in the Balance of Payments. However, remittances flow has been constantly on the rise. According to the estimates of the Ministry of Economy and Commerce, in 2005 remittances amounted to USD 890 million, while independent experts indicate more than one billion.
- <sup>4</sup> According to the survey conducted by CBS-AXA in 2005 as part of the Moldovan Remittances Study, the low level of business investment is due to three factors: (i) business investment ranks low among the reasons motivating migration, (ii) few migrants (17 percent ) think that they will be able to save enough during the next few years to invest in their own business, and (iii) migrants have a cautious attitude towards investing in Moldova. In focus groups and interviews, few participants expressed an interest in opening a business in Moldova, often referring to bureaucracy, corruption, and the perception of a poor business environment.
- <sup>5</sup> The model of economic growth and remittances presented by Rapoport and Docquier in *The Economics of Migrants' Remittances* (2003) shows that if the cost of migration is low and the entry cost for investing in a business activity is high—which seems to be the case in Moldova at present—migration is likely to continue and

low levels of investment maintained. In a less favorable business environment, it is more attractive to finance the emigration of other family members than to invest in entrepreneurship.

- <sup>6</sup> According to the Country Economic Memorandum “Moldova Opportunities for an Accelerated Growth” issued by the World Bank in 2005, gross fixed capital formation constituted about 18 percent of GDP, of which private investment was about 16 percent of GDP, while public investment was only about two percent of GDP. Even when compared to other transition economies, private investment levels in Moldova are very low.
- <sup>7</sup> According to the latest IMF *World Economic Outlook* (2006), Moldova’s economic growth will drop down to three percent in 2006 and 2007, much lower than the 6.8 percent average forecasted for CIS members.
- <sup>8</sup> UNDP, USAID, and the World Bank have designed special programs to focus on local governance issues such as Local Agenda 21, the Local Government Reform Project, and the Social Investment Fund. The formulation of a local development strategic plan was the first step in collaboration between local government partners, laying the foundation upon which future cooperation and technical assistance would be based. Initially, the Social Investment Fund targeted rural areas, and since the focus of this policy paper is on urban settlements, the WB model is beyond its scope.
- <sup>9</sup> The Urban Institute has been implementing the Local Government Reform Project (LGRP) in Moldova since 2000. It is scheduled to operate until July 31, 2007. LGRP is a program funded by USAID aiming to empower local governments in Moldova to achieve greater autonomy, efficiency, responsiveness, accountability, and transparency. To achieve this goal, the project works directly with city, town, and village governments. Strategic planning is the first step of LGRP in working with local government partners. To date, LGRP has provided assistance to 120 local governments, large and small, from all across Moldova.
- <sup>10</sup> Between 2000 and 2006, UNDP Moldova implemented the project Local Agenda 21. This project promoted good governance via a participatory local strategic planning process. The network of Local Agenda includes 15 localities.
- <sup>11</sup> Unlike many countries in the region, in Moldova there is a plethora of mayors’ associations—exponents of various political interests. These associations are weak, unorganized, and unable to articulate a view and promote a message.
- <sup>12</sup> These laws fueled controversial debates in and out of the country. The Council of Europe, represented by the Congress of Local and Regional Authorities, parliamentary opposition, several municipal associations, and think tanks expressed severe opposition towards reshuffling the *judet* territorial administrative system. This criti-

cism was motivated by the concept, spirit, methods, ambiguities, and cost related to this reform. Many felt that this so-called “reform” was in fact a counter-reform meant to undermine decentralization and local autonomy. Furthermore, the Viitorul Institute for Development and Social Initiative and the Business Consulting Institute estimated the cost of reform at MDL 740 million, with MDL 103 million for the implementation of reform and MDL 640 million as administrative costs were to be incurred in connection with the reform. Alternatively, this amount could have been used for the construction of a 700 km gas pipeline extending to 200 localities, the rehabilitation of the water supply system in 1,500 localities, repairs to 25,000 km of roads, capital repairs of 1,000 schools and 2,000 childcare centers, providing all schools with computers and access to internet, etc.

- <sup>13</sup> For instance, the total estimated cost for the implementation of the Lipcani local development strategic plan amounts to MDL 44.2 million (approximately USD 3.4 million) while Bucovat’s amounts to MDL 6.4 million (approximately USD 0.5 million).
- <sup>14</sup> According to the most recent Council of Europe Explanatory Memorandum (November 2005), Ministry of Finance transfers constituted 56.6 percent of total local budgets in 2004 and 64.8 percent in 2005.
- <sup>15</sup> According to the same report, local taxes gives less than three percent to the local budget.
- <sup>16</sup> This government decision goes against the Moldovan Constitution (Art. 109) and the Law on Local Public Administration (Art. 3), which stipulates “local governments shall enjoy financial autonomy and shall have the right of initiative in matters concerning local public affairs.” It also contradicts the European Charter (Art. 6), which stipulates “local councils shall themselves form executive bodies.” It was severely criticized by local public officials, national and international experts, as well as the opposition coalition in Parliament. The representatives of the latter challenged the unconstitutional nature of this decision in the Constitutional Court, but judges found their questioning groundless and rejected it. However, the problem still exists and is awaiting resolution.
- <sup>17</sup> Bizpro/Moldova is a major USAID-funded enterprise development project. Its mission is to assist major stakeholders of small business development to build a stable and barrier-free regulatory environment. To accomplish its mission Bizpro is focused on two tasks: SME policy and regulatory reform and financial services for SMEs. Bizpro has developed and implemented the first phase of the regulatory reform based on a “Gulliotene approach” at the national level and has introduced one-stop shops in 15 *raion* level centers using an electronic database. Although highly successful, first level governments are not among the project’s direct beneficiaries.

Bizpro has been operating in Moldova since 2001 and was scheduled to continue until September 2006.

- <sup>18</sup> In these few city halls, Local Economic Development Officers usually do not have a clear and full understanding of their role and job responsibilities. They often replace the functions not covered in the current organizational chart. For instance, in one of the city halls, the Business Development Specialist is in fact in charge of the procurement process. As explained during the interview, as the title of the position suggests this specialist deals with businesses and therefore is best suited to collect quotes and conduct bidding processes.
- <sup>19</sup> Data provided by Center Contact.
- <sup>20</sup> For more details see <http://www.freezone-ungheni.md>.
- <sup>21</sup> For more details see <http://www.csbu.com/eng/about.php>.
- <sup>22</sup> Moldova became a signatory in 1998. According to Moldova's legal system, the norms of international law should be applied in case there are disputable norms between the provisions of domestic and international legislation.

# Glossary

**Active companies:** enterprises that are registered *and* operational, thus creating turnover and paying taxes and contributions.

**Build-operate-transfer (BOT):** a form of project financing and implementation wherein a private entity receives a franchise from the public sector to finance, design, construct, and operate a facility for a specified period, after which ownership is transferred back to the public sector.

**Capacity:** ability of a locality to achieve its vision effectively and to sustain itself over the long term.

**Capacity building:** a set of activities that improve locality's ability to achieve its vision, goals, and objectives more effectively.

**Decentralization:** The process of strengthening (financially and legally) sub-national units of government—transferring responsibilities for planning and management and raising and allocating resources from the central government and its agencies to lower tiers of government. Transfer of competencies (functional decentralization) should be supported by a parallel transfer of appropriate resources (fiscal decentralization). Decentralization affects local economic development by adjusting the competences and powers local authorities exercise and the resources they control that can be used to facilitate improvement of the local economy.

**Evaluation:** assessment of the outcomes and impact of projects and programs.

**Hard infrastructure:** assets that create the physical environment for businesses to operate.

**If-Then project logic model:** an action-oriented tool for program planning and evaluation that links intended and achieved results (outputs-outcomes-impact) with work planned and work carried out.

**Local knowledge infrastructure:** the unique combination of networked economic, social, and cultural knowledge resources of a city, its local organizations, and individuals, as *knowledge nodes*.

**Monitoring:** the continuous process of data collection, analysis, and management to track progress achieved versus program and project objectives.

**Monitoring indicator:** a variable that should change in value according to the progress of the implementation process. This change enables assessment of the success rate of individual measures or the entire program or strategy. Its value is periodically checked and compared to preset and/or initial values in order to complete an assessment. Monitoring indicators usually have pre-defined values that mark success (if achieved). Examples include employment rate, GDP, number of implemented projects, etc.

**Public-private-partnership (PPP):** a contractual arrangement between the public and private sectors (consistent with a broad range of possible partnership structures) with clear agreement on shared objectives for the delivery of public infrastructure and/or public services by the private sector that would otherwise have been provided through traditional public sector procurement. A typical case of PPP is Build-Operate-Transfer (see above).

**Project:** a temporary, one-time endeavor to accomplish a unique purpose (product or service) within a defined scope, time, and budget.

**Project implementation success:** a comparison of what a project intended to achieve in its own terms, and what was finally achieved, in terms of its timeline and outputs

**Project management:** a controlled process of initiating, planning, executing, and closing down a project within defined scope, time, and cost constraints.

**Project portfolio management:** organization of a series of projects into a single portfolio consisting of reports that capture project objectives, costs, timelines, accomplishments, resources, risks, and other critical factors.

**Program:** a group of projects selected and planned in a coordinated way to achieve a set of common objectives.

**Program management:** a controlled process of initiating, planning, executing, and closing down a group of projects related to certain common objectives.

**Second-tier cities:** regional or sub-regional centers where a specialized set of trade-oriented industries takes root and flourishes, establishing employment and population growth trajectories.

**SMART outcomes:** a mnemonic used to set project objectives. An appropriate objective must be Specific (the goal and methods clearly defined), Measurable (numerically), Achievable (with all required resources), Relevant, and Timebound (with set deadlines).

**Soft infrastructure:** non-tangible aspects of local economic development.

**Stakeholder:** a person or organization that has a legitimate interest in a project, program, or policy.

**Strategic planning:** a process of defining the strategy for achievement of set objectives, goals, and/or priorities and making decisions on allocating resources to pursue this strategy, including capital and people.



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